

**UNIVERSITY OF COLORADO HEALTH**

Basic Financial Statements  
For the Years Ended  
June 30, 2018 and 2017  
(With Independent Auditors' Report Thereon)



# UNIVERSITY OF COLORADO HEALTH

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## UNIVERSITY OF COLORADO HEALTH

### Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (\$s in thousands)

This discussion and analysis of the financial performance of University of Colorado Health ("UCHealth" or the "Health System") provides an overall review of UCHealth's financial activities as of and for the years ended June 30, 2018 and 2017.

The Management's Discussion and Analysis is designed to focus on the current fiscal year while providing comparison information for the previous fiscal year, resulting changes, and currently known facts; therefore, please read it in conjunction with the Health System's basic financial statements.

#### UCHealth Overview

- Effective July 1, 2012, UCHealth was created through a joint operating agreement with Poudre Valley Health Care Inc. ("PVHS") and the University of Colorado Hospital Authority ("UCHA"). Together, UCHA and PVHS are member organizations in UCHealth. UCHealth previously applied for and received its 501(c)(3) designation from the IRS on June 29, 2013. The joint venture enhances the capacity of the members to protect, sustain, and expand their respective missions.
- The initial term of the joint operating agreement is 50 years, with renewals or extensions anticipated. The agreement includes significant hurdles for termination other than by mutual agreement. Under the joint operating agreement, the members of the joint venture become members of the obligated group under each other's master trust indenture and, thereby, pledge their gross revenues to secure each member's obligations.
- UCHealth entities pool their respective revenues and expenses for a single bottom line. The UCHealth Board of Directors approves the operating and capital budgets of each entity throughout the system. Entity-specific boards remain to oversee medical staff and credentialing, quality, joint commission, and oversight of other day-to-day operating activities.
- Effective October 1, 2012, an Integration and Affiliation Agreement and Health System Operating Lease Agreement with the City of Colorado Springs (the "City") was executed with the purpose of leasing Memorial Health System ("MHS"). UCHealth created the UCH-MHS entity to assume operations of MHS upon receipt of confirmation of exempt status from the IRS. The original lease is for a 40-year term, with renewals or extensions anticipated.
- Effective October 1, 2012, all employees of MHS became employees of UCHA. Effective January 4, 2013, all employees of PVHS became employees of UCHA. All staff working at UCHealth facilities or working in UCHealth system operations are employees of UCHA.
- The acquisition cost of MHS to UCHealth was \$400,000, with \$290,000 paid in cash at closing and \$110,000 in lease payments to be paid over 30 years. Effective October 1, 2012, a sublease agreement was executed with Children's Hospital Colorado to operate the pediatric units located at MHS and was valued at 15% of the organization. Children's Hospital Colorado paid the corresponding amount of the upfront payment and is responsible for its percentage of the ongoing lease payments to the City. The net acquisition cost to UCHealth after sublease to Children's Hospital Colorado was \$340,000. On June 4, 2015, MHS became the licensed operator of the pediatric services and certain provisions of the sublease were temporarily suspended and replaced by a Management Services Agreement and Employee Lease between MHS and Children's Hospital Colorado. It is anticipated that the original provisions of the lease will be reinstated in 2019 when the new Children's Hospital facility is opened in Colorado Springs.
- In August 2017 UCHealth opened the new Longs Peak Hospital facility constructed in Longmont, Colorado. The new facility is a 3 story 51 bed licensed facility and also includes an ambulatory surgery center.

## UNIVERSITY OF COLORADO HEALTH

### Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (\$s in thousands)

#### UCHealth Overview (continued)

- Effective September 1, 2017, an Integration and Affiliation Agreement with Yampa Valley Medical Center ("YVMC") was executed with the purpose of having YVMC join UCHealth. Terms of the agreement included a \$50,000 strategic capital commitment, routine capital funding of \$35,000 over a 10-year period, and a contribution up to \$20,000 into the YVMC Foundation. YVMC is located in Steamboat Springs, Colorado and is a 39 bed acute care hospital. Effective September 1, 2017, all employees of YVMC became employees of UCHA.
- Effective December 1, 2017, UCHealth purchased the remaining 49.9% of UCHealth Partners, LLC, a Colorado limited liability company that was a Joint Venture with Adeptus Health Colorado Holdings LLC. UCHealth Partners, LLC includes operations of Broomfield Hospital, Grandview Hospital, and 17 freestanding emergency departments located in the Denver and Colorado Springs metropolitan areas. Broomfield Hospital is located in Broomfield, Colorado and is licensed for 22 inpatient beds. Grandview Hospital is located in Colorado Springs, Colorado and is licensed for 22 inpatient beds. Effective January 28, 2018, all employees of UCHealth Partners, LLC became employees of UCHA.
- Effective April 1, 2018, UCHealth completed an asset purchase agreement to acquire assets of Pikes Peak Regional Hospital from Brim Healthcare of Colorado LLC for cash consideration of \$32,150. UCHealth Pikes Peak Regional Hospital ("PPRH") is located in Woodland Park, Colorado and is a critical access hospital licensed for 15 beds. Effective April 1, 2018, all employees of PPRH became employees of UCHA.

#### UCHealth Financial Highlights

- Inpatient volumes, measured in admissions and patient days, increased over 2017. Volumes include inpatient units at the ten UCHealth hospital facilities: University of Colorado Hospital, Poudre Valley Hospital, Medical Center of the Rockies, Longs Peak Hospital, Yampa Valley Medical Center, Broomfield Hospital, Memorial Hospital Central, Memorial Hospital North, Grandview Hospital and UCHealth Pikes Peak Regional Hospital. Volumes exclude activity associated with the Center for Dependency, Addiction, and Rehabilitation ("CeDAR"), Mountain Crest residential activity and normal newborns. Admissions totaled 91,109, which was a 4.9% increase over 2017. Patient days totaled 433,586 for fiscal year 2018, an 8.6% increase over the prior year.
- Outpatient volumes, measured by clinic and urgent care visits, were 3,427,623 in 2018, which was a 17.3% increase over 2017. This figure includes activity at the ten hospital locations, various outpatient and urgent care clinics located throughout the primary service areas, and activity performed by the UCHealth Medical Group.
- Net patient service revenue of \$4,269,141 increased from 2017 by \$668,832, or 18.6%. Total operating revenue in 2018 was \$4,341,486. Total operating revenue consists of net patient revenue, grant revenue, and other revenue.
- Operating income was \$526,276 during the fiscal year, which is a 6.5% increase over 2017 operating income of \$494,222.
- According to Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, interest expense is defined as a non-operating expense and is classified as such in UCHealth's basic financial statements. Operating income would be \$473,034 in 2018 and \$443,367 in 2017 if interest expense were included as an operating expense.

## UNIVERSITY OF COLORADO HEALTH

### Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (\$s in thousands)

#### UCHealth Financial Highlights (continued)

- Non-operating revenue and expenses in 2018 was a gain of \$182,396, which is a \$74,970 decrease from 2017. This change was primarily generated from a decrease in investment income and increase in interest expense.
- Income before distributions and contributions was \$708,672 in 2018, which decreased \$42,916 from 2017. Restricted contributions totaled \$5,497 for 2018. Acquisitions of interests in component units totaled \$43,337 for 2018.
- During fiscal year 2018, UCHealth continued investment in a system-wide electronic medical record ("EMR") platform. \$9,322 was incurred on this project during the year ended June 30, 2018 for additional facility locations software licenses.
- During fiscal year 2018, UCHA completed construction to build out operating room space in the new patient tower, Anschutz Inpatient Pavilion 2. \$12,815 was incurred on this project during the year ended June 30, 2018.
- In October 2014, MHS approved the project to upgrade and expand Memorial North Hospital campus. The project had an original budgeted cost of \$98,358, which was increased to \$127,933 in February 2017. The project is expected to be completed in phases through the end of fiscal year 2019. \$49,464 was incurred on this project during the year ended June 30, 2018.
- In March 2015, UCHealth approved the project to construct Longs Peak Hospital and Ambulatory Surgery Center in Longmont, Colorado. The project was completed in fiscal year 2018. \$38,335 was incurred on this project during the year ended June 30, 2018.
- In February 2016, UCHealth approved the project to construct a hospital, cancer center, and medical office building in Highlands Ranch. The project includes 73 hospital beds, shelved space for future hospital expansion, and nine total operating or procedure rooms. The project has a total budget of \$369,673 and is expected to be completed in fiscal year 2019. \$131,322 was incurred on this project during the year ended June 30, 2018.
- In February 2016, UCHealth approved the project to construct an ambulatory surgery center and medical office building in Inverness. The project includes 4 operating rooms, 24 preparation and recovery rooms, 12 short stay beds and a medical office building. The project has a total budget of \$105,954 and is expected to be completed in fiscal year 2020. \$12,246 was incurred on this project during year ended June 30, 2018.
- In May 2016, UCHealth approved the project to construct a hospital and medical office building in Greeley. The project includes 53 hospital beds, a medical office building, and six total operating or procedures rooms. The project has a total budget of \$185,137 and is expected to be completed in fiscal year 2020. \$90,816 was incurred on this project during the year ended June 30, 2018.
- In July 2018, UCHealth completed an annual ratings update with Moody's, Standard & Poor's, and Fitch Ratings to rate the member organizations. Moody's maintained UCHA and PVHS rating at Aa3 Stable. Standard & Poor's maintained UCHA and PVHS rating at AA- Stable. Fitch Ratings upgraded the UCHA ratings to AA Stable from AA-.

## UNIVERSITY OF COLORADO HEALTH

### Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (\$s in thousands)

#### UCHealth Financial Highlights (continued)

- In July 2018, UCHA issued Series 2018A Revenue Bonds ("Series 2018A") in the amount of \$45,915 to fully refund PVHS Series 2005A bonds. Series 2018A were issued as variable-rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connection with weekly remarketing dates. To address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity.
- In July 2018, UCHA issued Series 2018B Revenue Bonds ("Series 2018B") and Series 2018C Revenue Bonds ("Series 2018C") in the amount of \$76,170 and \$75,265 respectively to fully refund PVHS Series 2005B and Series 2005C bonds. Series 2018B and 2018C are variable rate bonds and will bear interest as determined by the Remarketing Agent each week and principal is paid according to a mandatory sinking fund redemption schedule. UCHA has a Standby Bond Purchase Agreement with TD Bank to provide liquidity support for Series 2018B and 2018C. The Standby Bond Purchase Agreement will expire on July 26, 2023 unless extended by the bank. UCHealth previously entered a forward-starting floating-to-fixed interest rate swap to coincide with the July 2018 refunding of the Series 2005 bonds. The forward swap will hedge the 2018 Series variable rate bonds issued in July 2018 to refund the fixed rate Series 2005 bonds ranging from 5.20% to 5.25% creating synthetic fixed rate debt. The swap agreement has an initial notional amount of \$198,805 and a fixed payor rate of 1.81%, and UCHealth will receive 67% of one-month LIBOR for the entire swap term, which expires March 2040. Settlements are to be made monthly starting in September 2018.

#### Overview of the Basic Financial Statements

- This discussion and analysis is intended to serve as an introduction to UCHealth's basic financial statements, which consist of the enterprise fund, including its blended component units, the pension trust fund, and the notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements.
- UCHealth has two types of funds: an enterprise fund that accounts for all transactions related to UCHealth hospitals, physician groups, and the foundations' business, and a fiduciary fund for UCHA's employee pension plan.
- The balance sheets; statements of revenue, expenses, and changes in net position; and statements of cash flows are presented on an accrual basis, in accordance with accounting principles generally accepted in the United States of America. This information provides an indication of UCHealth's financial health. The balance sheets include all of UCHealth's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, as well as an indication about which assets can be utilized for general purposes and which are restricted as a result of bond covenants or other agreements. The statements of revenue, expenses, and changes in net position report all of the revenue and expenses during the periods indicated. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income, and other cash uses, such as repayment of debt and purchase of capital.
- Notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided in the basic financial statements. Required supplementary information relates to UCHA's progress in funding its obligation to provide pension benefits to its employees.

# UNIVERSITY OF COLORADO HEALTH

## Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (\$s in thousands)

### Financial Analysis and Results of Operations

Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30 are summarized in Table 1 and are discussed below:

**Table 1**  
**University of Colorado Health**  
**Balance Sheets**

|                                                                    | 2018                | 2017                |
|--------------------------------------------------------------------|---------------------|---------------------|
| Current assets                                                     | \$ 1,146,610        | \$ 987,837          |
| Capital assets, net of accumulated depreciation                    | 2,420,379           | 1,994,673           |
| Non-current assets and other assets                                | 3,643,824           | 3,342,505           |
| Total assets                                                       | <u>7,210,813</u>    | <u>6,325,015</u>    |
| Deferred outflows of resources                                     | <u>67,753</u>       | <u>53,628</u>       |
| Total assets and deferred outflows of resources                    | <u>\$ 7,278,566</u> | <u>\$ 6,378,643</u> |
| Current liabilities                                                | \$ 943,941          | \$ 801,179          |
| Long-term liabilities                                              | 1,866,705           | 1,864,097           |
| Total liabilities                                                  | <u>2,810,646</u>    | <u>2,665,276</u>    |
| Deferred inflows of resources                                      | <u>13,360</u>       | <u>5,817</u>        |
| Net position                                                       |                     |                     |
| Invested in capital assets, net of related debt                    | 538,843             | 114,671             |
| Restricted                                                         |                     |                     |
| Expendable                                                         |                     |                     |
| Held by trustee for debt service                                   | 23,495              | 145,365             |
| Restricted by donors                                               | 38,012              | 16,452              |
| Non-expendable                                                     |                     |                     |
| Permanent endowments                                               | 27,960              | 27,989              |
| Minority interest in component unit                                | 28,352              | 24,706              |
| Unrestricted                                                       | <u>3,797,898</u>    | <u>3,378,367</u>    |
| Total net position                                                 | <u>4,454,560</u>    | <u>3,707,550</u>    |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 7,278,566</u> | <u>\$ 6,378,643</u> |

## UNIVERSITY OF COLORADO HEALTH

### Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (\$s in thousands)

#### **Financial Analysis and Results of Operations (continued)**

At June 30, 2018, UCHealth's total net position was \$4,454,560, which is an increase in total net position of \$747,010, or, 20.1% from the prior year-end. UCHealth classifies net position as invested in capital assets, net of related debt, restricted, and unrestricted. Net position invested in capital assets, net of related debt, increased during the fiscal year due to debt principal payments and additional capital expenditures. The unrestricted net position increase was driven primarily by strong operating performance and investment returns.

At June 30, 2018, UCHealth's cash and investment position was \$3,920,355, which is an increase of \$469,307, or 13.6%, over June 30, 2017. Days cash on hand were 366.4 days as calculated per bond covenant requirements based on obligated group membership. Net days in accounts receivable were 41.4 as of June 30, 2018.

# UNIVERSITY OF COLORADO HEALTH

Management's Discussion and Analysis  
Years Ended June 30, 2018 and 2017  
(\$s in thousands)

## Revenues, Expenses, and Change in Net Position

Revenues, expenses, and change in net position are summarized in Table 2 and are discussed below:

**Table 2**  
**University of Colorado Health**  
**Revenue, Expenses, and Changes in Net Position**

|                                                              | Fiscal Years Ended June 30, |                     |
|--------------------------------------------------------------|-----------------------------|---------------------|
|                                                              | 2018                        | 2017                |
| Operating revenue                                            |                             |                     |
| Net patient service revenue                                  | \$ 4,269,141                | \$ 3,600,309        |
| Other operating revenue                                      | 72,345                      | 67,967              |
| Total operating revenue                                      | <u>4,341,486</u>            | <u>3,668,276</u>    |
| Operating expenses                                           |                             |                     |
| Wages, contract labor, and benefits                          | 1,806,406                   | 1,514,706           |
| Supplies                                                     | 907,000                     | 762,071             |
| Purchased services and other expenses                        | 902,673                     | 723,000             |
| Depreciation and amortization                                | 199,131                     | 174,277             |
| Total operating expenses                                     | <u>3,815,210</u>            | <u>3,174,054</u>    |
| Operating income                                             | <u>526,276</u>              | <u>494,222</u>      |
| Non-operating revenues and expenses                          |                             |                     |
| Interest expense                                             | (53,242)                    | (50,855)            |
| Investment income                                            | 263,253                     | 335,110             |
| Unrealized gain on derivative investments                    | 13,599                      | 12,045              |
| (Loss) gain on disposal of capital assets                    | (432)                       | 327                 |
| Other, net                                                   | (40,782)                    | (39,261)            |
| Total non-operating revenue and expenses                     | <u>182,396</u>              | <u>257,366</u>      |
| Income before distributions, contributions, and acquisitions | 708,672                     | 751,588             |
| Distributions to minority interest in component unit         | (10,496)                    | (4,684)             |
| Contributions restricted for capital assets                  | 12                          | 10                  |
| Contributions restricted, other                              | 5,485                       | 4,016               |
| Acquisitions of interests in component units                 | <u>43,337</u>               | <u>-</u>            |
| Change in net position                                       | 747,010                     | 750,930             |
| Net position, beginning of year                              | <u>3,707,550</u>            | <u>2,956,620</u>    |
| Net position, end of year                                    | <u>\$ 4,454,560</u>         | <u>\$ 3,707,550</u> |

## **UNIVERSITY OF COLORADO HEALTH**

### **Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (\$s in thousands)**

#### **Net Patient Service Revenue**

Net patient service revenue increased by \$668,832, or 18.6%, in 2018 compared to 2017. The detail of net patient revenue can be found in Note 4 of the basic financial statements.

UCHealth provides care to patients who meet certain criteria under its charity care policies and to uninsured patients without charge or at amounts less than established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. Based on an analysis of direct and indirect costs specific to the procedures performed, the cost of these services was \$84,621 and \$59,499 in 2018 and 2017, respectively.

UCHealth maintains a self-pay discount program in which self-pay patients automatically receive a discount on total charges, which varies by facility. This program reduces uninsured patients' liabilities to a level more equivalent to insured patients. The self-pay discounts and packages for 2018 and 2017 were approximately \$174,152 and \$134,155, respectively.

In 2010, the State of Colorado modified the CICP Safety Net Provider Program with the Colorado Health Care Affordability Act (the "Act"). The Act authorizes the Department of Health Care Policy and Financing to collect a fee from hospital providers to increase Medicaid payments to hospitals and expand coverage under public healthcare programs. The program became effective on January 1, 2010. For the year ended June 30, 2018, UCHealth was charged \$164,938 in hospital provider fees, compared to \$129,620 in 2017, and received \$230,053 in 2018 in disproportionate share revenue as compensation for indigent and uninsured care services provided compared to \$202,105 in 2017.

UCHealth benefits the community by providing programs, including those listed above, for uninsured and underinsured patients. The total benefit to UCHealth's communities for these programs was \$358,913 in 2018, which is an increase of \$99,327 over the 2017 benefit of \$259,586, and is determined by applying an adjusted cost-to-charge ratio to the charges under these programs and reducing the benefit amount by any actual reimbursement received for these programs.

#### **Operating Expenses**

Operating expenses were \$3,815,210 in 2018. This was an increase of \$641,156 or 20.2% in 2018 compared to 2017.

Wages, contract labor, and benefits expense of \$1,806,406 was a \$291,700, or 19.3%, increase over the 2017 expense of \$1,514,706. This includes a 20.1% increase in salaries, a 3.4% decrease in contract labor, and a 20.9% increase in benefits.

Medical and non-medical supplies expense of \$907,000 increased by \$144,929, or 19.0%, in 2018. Purchased services and other expenses of \$902,673 increased over 2017 by \$179,673, or 24.9%.

#### **Non-Operating Revenue and Expenses**

Non-operating revenue and expenses are discussed below:

##### **Interest Expense**

In accordance with GASB Statement No. 34, UCHealth records interest expense as a non-operating expense. Interest expense in 2018 was \$53,242 compared to \$50,855 in 2017.

## UNIVERSITY OF COLORADO HEALTH

### Management's Discussion and Analysis Years Ended June 30, 2018 and 2017 (\$s in thousands)

#### **Investment Income**

##### **Equity and Fixed Income Investments**

Non-operating gain from UCHHealth's equity, fixed income, and cash investments was \$263,253 in 2018 and \$335,110 in 2017.

The equity portfolio gain was \$246,860 in 2018 compared to \$306,251 in 2017. Interest and dividend income on the portfolio was \$22,782, and realized and unrealized gains on the portfolio were \$224,078. The realized/unrealized gains were due to strong performance in the investment markets.

The fixed-income portfolio gain was \$9,364 in 2018 compared to a gain of \$28,710 in 2017. Interest and dividend income from the fixed income portfolio was \$22,341. Realized and unrealized losses were \$12,977 in 2018 compared to a \$4,979 gain in 2017. The loss was due to rising interest rates.

Restricted investments from UCHHealth foundations generated gains of \$2,706 and \$3,868 in 2018 and 2017, respectively. Other investment income totaled \$9,360 for fiscal year 2018, and investment expense was \$5,037 for the year.

UCHHealth utilizes interest rate swaps to manage interest rate risk exposure on certain bond series. Interest rate swaps involve counterparty credit risk, and UCHHealth seeks to control this risk by entering into transactions with high quality counterparties and through exposure monitoring. UCHA is party to two floating-to-fixed payer swap agreements tied to the Series 2013A and 2013C Revenue Bonds. UCHHealth is party to a forward-starting floating-to-fixed rate swap agreement to coincide with the completed refunding of Series 2005 bonds effective in September 2018 and is also party to a total return fixed-to-floating swap agreement tied to the Series 2017A Revenue Bonds. These agreements are used to create synthetic fixed rate bonds by converting the variable rates on those series to a fixed rate, reducing interest rate risk, or reducing the overall cost of capital. Therefore, cash flows on these agreements are recorded as interest expense. These agreements are discussed in greater detail in Note 7 to the basic financial statements.

Management presents portfolio performance reports to the Finance Committee of the UCHHealth Board of Directors on a quarterly basis. Management meets regularly with UCHHealth's investment advisor to review portfolio and investment manager performance and to identify and recommend changes to the investment strategy. The operating portfolio asset allocation has been modified to increase investment manager diversification and create different allocations to better align investment expectations with future liabilities. Investment expenses consist of fees paid to UCHHealth's investment managers and advisor.

##### **Other Non-Operating Expenses**

Other net non-operating expenses were \$40,782 in 2018 due to accruals for unrelated business income taxes due, donations made, and fundraising expenses.

## UNIVERSITY OF COLORADO HEALTH

Management's Discussion and Analysis  
Years Ended June 30, 2018 and 2017  
(\$s in thousands)

### Capital Assets and Debt Administration

#### Capital Assets

Capital assets, net of depreciation and impairment, at June 30, 2018 and 2017 are summarized in Table 3 and are discussed below.

**Table 3**  
**University of Colorado Health**  
**Capital Assets, Net of Depreciation and Impairment**

|                            | 2018                | 2017                |
|----------------------------|---------------------|---------------------|
| Land                       | \$ 125,621          | \$ 120,770          |
| Buildings and Improvements | 1,465,798           | 1,299,708           |
| Equipment                  | 387,310             | 313,347             |
| Construction in progress   | 441,650             | 260,848             |
| Total                      | <u>\$ 2,420,379</u> | <u>\$ 1,994,673</u> |

This year's additions to capital assets in excess of \$10,000, exclusive of additions from acquisitions of component units of \$93,128, included the following:

|                                                                    |          |
|--------------------------------------------------------------------|----------|
| Longs Peak Hospital                                                | \$38,335 |
| Greeley Hospital and Medical Office Building                       | 90,816   |
| University of Colorado Hospital Inpatient Operating Room Expansion | 12,815   |
| Highlands Ranch Hospital                                           | 131,322  |
| Pikes Peak Regional Hospital                                       | 22,352   |
| Inverness Ambulatory Surgery Center and Medical Office Building    | 12,246   |
| Memorial North Expansion                                           | 49,464   |

Ongoing capital requirements are funded from a combination of operating cash, debt proceeds, and contributions. UCHealth's annual capital budget, exclusive of the larger strategic projects, was \$89,700 in 2018 and \$71,331 in 2017. Cash flows related to capital expenditures totaled \$499,773 in 2018, compared to \$367,913 in 2017. Total depreciation expense on capital assets during 2018 was \$199,131, compared to \$174,277 in 2017. At June 30, 2018, the Health System had planned future capital spending of approximately \$668,949 for ongoing significant strategic IT and facility expansion projects.

# UNIVERSITY OF COLORADO HEALTH

Management's Discussion and Analysis  
Years Ended June 30, 2018 and 2017  
(\$s in thousands)

## Capital Assets and Debt Administration (continued)

### Long-Term Debt

Long-term debt is summarized and discussed below.

**Table 4**  
**University of Colorado Health**  
**Outstanding Long-Term Debt, Less Current Portion, at Year-End**

|          |                                                                       | 2018                | 2017                |
|----------|-----------------------------------------------------------------------|---------------------|---------------------|
| Combined | Capital leases                                                        | \$ 19,236           | \$ 22,726           |
| MHS      | City of Colorado Springs lease agreement                              | 95,936              | 98,563              |
| Combined | Loan payable                                                          | 3,661               | 3,853               |
| PVHS     | 2005A Revenue Bonds                                                   | 49,926              | 49,920              |
| PVHS     | 2005B Revenue Bonds                                                   | 82,846              | 82,837              |
| PVHS     | 2005C Revenue Bonds                                                   | 81,490              | 81,467              |
| UCHA     | 2009A Revenue Bonds                                                   | 37,704              | 39,610              |
| UCHA     | 2011B Revenue Bonds                                                   | 97,430              | 98,515              |
| UCHA     | 2011C Revenue Bonds                                                   | 38,170              | 44,705              |
| UCHA     | 2012A Revenue Bonds                                                   | 258,276             | 261,617             |
| UCHA     | 2012B Revenue Bonds                                                   | 50,000              | 50,000              |
| UCHA     | 2012C Revenue Bonds                                                   | 87,510              | 87,510              |
| UCHA     | 2013A Revenue Bonds                                                   | 86,630              | 88,720              |
| UCHA     | 2013B Revenue Bonds                                                   | 9,080               | 10,140              |
| UCHA     | 2013C Revenue Bonds                                                   | 62,245              | 63,825              |
| UCHA     | 2015D Revenue Bonds                                                   | 198,640             | 199,100             |
| UCHA     | 2017A Revenue Bonds                                                   | 152,075             | 152,075             |
| UCHA     | 2017B-1 Revenue Bonds                                                 | 57,685              | 57,685              |
| UCHA     | 2017B-2 Revenue Bonds                                                 | 51,025              | 57,125              |
| UCHA     | 2017C Revenue Bonds                                                   | 292,908             | 299,081             |
|          | Less current portion                                                  | (30,172)            | (29,653)            |
|          | Less long-term debt subject to short-term<br>remarketing arrangements | (102,315)           | (108,710)           |
|          |                                                                       | <u>\$ 1,679,986</u> | <u>\$ 1,710,711</u> |

## UNIVERSITY OF COLORADO HEALTH

Management's Discussion and Analysis  
Years Ended June 30, 2018 and 2017  
(\$s in thousands)

### Capital Assets and Debt Administration (continued)

#### Long-Term Debt (continued)

UCHA can issue debt on behalf of obligated group members, as established under the joint operating agreement creating the Health System. For more information about the Health System's outstanding debt, please see Note 12 of the basic financial statements.

The maximum annual debt service coverage ratio was 8.71 and 7.63 at June 30, 2018 and 2017, respectively, and bond covenants require a debt service coverage ratio greater than 1.5. The indebtedness ratio was 29.2% and 33.6% at June 30, 2018 and 2017, respectively, and bond covenants require an indebtedness ratio of less than 65.0%.

#### Economic Factors and Next Year's Activities, Budgets, and Rates

Demand for services at UCHHealth facilities is anticipated to grow in the upcoming year. Growth at the Anschutz Medical Campus, Medical Center of the Rockies and Memorial Health System is expected to produce high occupancy rates in fiscal year 2019. Longs Peak Hospital volumes are anticipated to grow in the 2<sup>nd</sup> year of operations and UCHHealth volumes will benefit from a full year of activity at YVMC and PPRH. Additionally, UCHHealth will open the new Highlands Ranch Hospital and Greeley Hospital in the 4th quarter of fiscal year 2019.

UCHHealth expects to maintain a stable payor mix. Continued growth in high-deductible benefit plans is anticipated, creating higher out-of-pocket costs for patients and a greater burden on UCHHealth in managing receivables. UCHHealth expects to remain in-network with all major payors in 2019.

The 2018-2019 budget, as approved by UCHHealth's Board of Directors, projects operating revenue at \$4,497,662 and an operating margin of 8.5%. EBITDA is budgeted at \$658,206, with an EBITDA margin of 14.6% and an increase in net position of \$523,719.

#### Requests for Information

This financial report is designed to provide a general overview of UCHHealth's financial results for all those with an interest in the organization's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the UCHHealth Chief Financial Officer, Mail Stop F-417, P.O. Box 6510, Aurora, Colorado 80045.

UCHA, a component unit of UCHHealth, issues a separate financial report. That report may be obtained by writing to UCHA Chief Financial Officer, Mail Stop F-417, P.O. Box 6510, Aurora, Colorado 80045.

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
University of Colorado Health  
Denver, Colorado

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the business-type activities and the fiduciary fund information of University of Colorado Health (the "Health System") as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Health System's basic financial statements as listed in the table of contents.

### **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **AUDITORS' RESPONSIBILITY**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary fund information of University of Colorado Health, as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## OTHER MATTERS

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Health System's basic financial statements. The combining financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*EKS+H LLP*

EKS&H LLP

Denver, Colorado  
September 25, 2018

# UNIVERSITY OF COLORADO HEALTH

## Balance Sheets June 30, 2018 and 2017 (\$s in thousands)

|                                                                                                                     | 2018                | 2017                |
|---------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Assets</b>                                                                                                       |                     |                     |
| Current assets                                                                                                      |                     |                     |
| Cash and cash equivalents                                                                                           | \$ 330,353          | \$ 324,041          |
| Patient accounts receivable, less allowances for uncollectible accounts<br>of \$440,657 and \$307,838, respectively | 522,159             | 412,017             |
| Other receivables                                                                                                   | 35,922              | 26,402              |
| Inventories                                                                                                         | 88,226              | 66,371              |
| Prepaid expenses                                                                                                    | 67,635              | 50,296              |
| Investments designated for liquidity support                                                                        | 102,315             | 108,710             |
| Total current assets                                                                                                | <u>1,146,610</u>    | <u>987,837</u>      |
| Non-current assets                                                                                                  |                     |                     |
| Restricted investments, bonds                                                                                       | 23,495              | 145,365             |
| Restricted investments, other                                                                                       | 843                 | 1,531               |
| Restricted investments and pledges, donors                                                                          | 44,153              | 43,077              |
| Capital assets, net of accumulated depreciation                                                                     | 2,420,379           | 1,994,673           |
| Long-term investments                                                                                               | 3,487,687           | 3,018,297           |
| Other investments                                                                                                   | 55,251              | 100,935             |
| Long-term prepaid expenses                                                                                          | 8,428               | 8,898               |
| Other assets                                                                                                        | 23,967              | 24,402              |
| Total non-current assets                                                                                            | <u>6,064,203</u>    | <u>5,337,178</u>    |
| Total assets                                                                                                        | <u>7,210,813</u>    | <u>6,325,015</u>    |
| <b>Deferred Outflows of Resources</b>                                                                               |                     |                     |
| Deferred amortization on refundings                                                                                 | 5,977               | 6,419               |
| Deferred amortization related to pension plan                                                                       | 38,501              | 32,297              |
| Deferred amortization on acquisitions                                                                               | 23,275              | 14,912              |
| Total deferred outflows of resources                                                                                | <u>67,753</u>       | <u>53,628</u>       |
| Total assets and deferred outflows of resources                                                                     | <u>\$ 7,278,566</u> | <u>\$ 6,378,643</u> |

See accompanying notes to the basic financial statements.

# UNIVERSITY OF COLORADO HEALTH

## Balance Sheets June 30, 2018 and 2017 (\$s in thousands)

|                                                                    | 2018                | 2017                |
|--------------------------------------------------------------------|---------------------|---------------------|
| <b>Liabilities</b>                                                 |                     |                     |
| Current liabilities                                                |                     |                     |
| Current portion of long-term debt                                  | \$ 30,172           | \$ 29,653           |
| Accounts payable and accrued expenses                              | 424,994             | 320,479             |
| Accounts payable - construction                                    | 78,333              | 41,357              |
| Accrued compensated absences                                       | 83,079              | 72,704              |
| Accrued interest payable                                           | 10,464              | 10,199              |
| Fair value of derivative instruments                               | 2,635               | 3,368               |
| Estimated third-party settlements, net                             | 211,949             | 214,709             |
| Long-term debt subject to short-term remarketing arrangements      | 102,315             | 108,710             |
| Total current liabilities                                          | <u>943,941</u>      | <u>801,179</u>      |
| Long-term liabilities                                              |                     |                     |
| Long-term debt, less current portion                               | 1,679,986           | 1,710,711           |
| Fair value of derivative instruments, less current portion         | 14,507              | 27,373              |
| Net pension liability                                              | 122,591             | 115,667             |
| Other long-term liabilities                                        | 49,621              | 10,346              |
| Total liabilities                                                  | <u>2,810,646</u>    | <u>2,665,276</u>    |
| <b>Deferred Inflows of Resources</b>                               |                     |                     |
| Deferred amortization related to pension plan                      | 13,360              | 5,817               |
| Total deferred inflows of resources                                | <u>13,360</u>       | <u>5,817</u>        |
| Total liabilities and deferred inflows of resources                | <u>2,824,006</u>    | <u>2,671,093</u>    |
| <b>Net Position</b>                                                |                     |                     |
| Invested in capital assets, net of related debt                    | 538,843             | 114,671             |
| Restricted                                                         |                     |                     |
| Expendable                                                         |                     |                     |
| Held by trustee for debt service                                   | 23,495              | 145,365             |
| Restricted by donors                                               | 38,012              | 16,452              |
| Non-expendable                                                     |                     |                     |
| Permanent endowments                                               | 27,960              | 27,989              |
| Minority interest in component unit                                | 28,352              | 24,706              |
| Unrestricted                                                       | 3,797,898           | 3,378,367           |
| Total net position                                                 | <u>4,454,560</u>    | <u>3,707,550</u>    |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 7,278,566</u> | <u>\$ 6,378,643</u> |

See accompanying notes to the basic financial statements.

**UNIVERSITY OF COLORADO HEALTH**

**Statements of Revenue, Expenses, and Changes in Net Position**

Years Ended June 30, 2018 and 2017

(\$s in thousands)

|                                                                                                      | 2018                | 2017                |
|------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Operating revenue                                                                                    |                     |                     |
| Net patient service revenue, net of provision for bad debts of \$205,124 and \$146,948, respectively | \$ 4,269,141        | \$ 3,600,309        |
| Other operating revenue                                                                              | 72,345              | 67,967              |
| Total operating revenue                                                                              | <u>4,341,486</u>    | <u>3,668,276</u>    |
| Operating expenses                                                                                   |                     |                     |
| Wages, contract labor, and benefits                                                                  | 1,806,406           | 1,514,706           |
| Supplies                                                                                             | 907,000             | 762,071             |
| Purchased services and other expenses                                                                | 902,673             | 723,000             |
| Depreciation and amortization                                                                        | 199,131             | 174,277             |
| Total operating expenses                                                                             | <u>3,815,210</u>    | <u>3,174,054</u>    |
| Operating income                                                                                     | <u>526,276</u>      | <u>494,222</u>      |
| Non-operating revenue and expenses                                                                   |                     |                     |
| Interest expense                                                                                     | (53,242)            | (50,855)            |
| Investment income                                                                                    | 263,253             | 335,110             |
| Unrealized gain on derivative instruments                                                            | 13,599              | 12,045              |
| (Loss) gain on disposal of capital assets                                                            | (432)               | 327                 |
| Other, net                                                                                           | (40,782)            | (39,261)            |
| Total non-operating revenue and expenses                                                             | <u>182,396</u>      | <u>257,366</u>      |
| Income before distributions, contributions, and acquisitions                                         | 708,672             | 751,588             |
| Net distributions to minority interest in component unit                                             | (10,496)            | (4,684)             |
| Contributions restricted for capital assets                                                          | 12                  | 10                  |
| Contributions restricted, other                                                                      | 5,485               | 4,016               |
| Acquisitions of interests in component units                                                         | <u>43,337</u>       | <u>-</u>            |
| Change in net position                                                                               | 747,010             | 750,930             |
| Net position, beginning of year                                                                      | <u>3,707,550</u>    | <u>2,956,620</u>    |
| Net position, end of year                                                                            | <u>\$ 4,454,560</u> | <u>\$ 3,707,550</u> |

See accompanying notes to the basic financial statements.

# UNIVERSITY OF COLORADO HEALTH

## Statements of Cash Flows Years Ended June 30, 2018 and 2017 (\$s in thousands)

|                                                                                                | 2018                     | 2017                     |
|------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| Cash flows from operating activities                                                           |                          |                          |
| Cash received from patients and third-party payors                                             | \$ 4,178,571             | \$ 3,516,665             |
| Cash payments to suppliers for goods and services                                              | (1,889,470)              | (1,526,016)              |
| Cash payments to employees/other on behalf of employees                                        | (1,692,175)              | (1,421,767)              |
| Other cash payments                                                                            | (41,665)                 | (43,056)                 |
| Other cash received                                                                            | 31,333                   | 54,095                   |
| Net cash provided by operating activities                                                      | <u>586,594</u>           | <u>579,921</u>           |
| Cash flows from capital and related financing activities                                       |                          |                          |
| Proceeds from long-term debt                                                                   | -                        | 302,678                  |
| Principal payments under capital lease obligations                                             | (6,174)                  | (6,212)                  |
| Principal repayments of long-term debt                                                         | (23,841)                 | (21,729)                 |
| Payments of interest and issuance costs on long-term debt                                      | (62,950)                 | (52,833)                 |
| Capital expenditures                                                                           | (499,773)                | (367,913)                |
| Receipt of contributions                                                                       | 5,211                    | 4,134                    |
| Cash acquired from component units                                                             | 15,379                   | -                        |
| Distributions to minority interest in component unit                                           | (10,496)                 | (4,684)                  |
| Proceeds from sale of capital assets                                                           | 140                      | 2,104                    |
| Net cash used in capital and related financing activities                                      | <u>(582,504)</u>         | <u>(144,455)</u>         |
| Cash flows from investing activities                                                           |                          |                          |
| Investment income                                                                              | 55,902                   | 61,694                   |
| Distributions from joint ventures                                                              | 27,065                   | 12,335                   |
| Proceeds from sale and maturities of investments                                               | 2,691,650                | 1,894,084                |
| Purchases of investments                                                                       | (2,772,395)              | (2,172,680)              |
| Net cash provided by (used in) investing activities                                            | <u>2,222</u>             | <u>(204,567)</u>         |
| Net increase in cash and cash equivalents                                                      | 6,312                    | 230,899                  |
| Cash and cash equivalents, beginning of year                                                   | 324,041                  | 93,142                   |
| Cash and cash equivalents, end of year                                                         | <u><u>\$ 330,353</u></u> | <u><u>\$ 324,041</u></u> |
| Reconciliation of operating income to net cash provided by operating activities                |                          |                          |
| Operating income                                                                               | \$ 526,276               | \$ 494,222               |
| Adjustments to reconcile operating income to net cash provided by operating activities         |                          |                          |
| Depreciation and amortization                                                                  | 199,131                  | 174,277                  |
| Provision for bad debts                                                                        | 205,124                  | 146,948                  |
| Increase in patient accounts receivable                                                        | (315,266)                | (212,010)                |
| Decrease in estimated third-party settlements                                                  | (2,760)                  | (8,199)                  |
| Increase in other receivables                                                                  | (9,520)                  | (7,350)                  |
| Increase in inventories                                                                        | (21,855)                 | (4,913)                  |
| Change in net pension liability and pension-related deferred inflows and outflows of resources | 8,263                    | 5,955                    |
| Increase in prepaid expenses                                                                   | (17,339)                 | (4,037)                  |
| Decrease in other assets                                                                       | 435                      | 1,472                    |
| Increase in accounts payable and accrued expenses                                              | 104,515                  | 33,049                   |
| Increase in accrued compensated absences and other long-term liabilities                       | 49,650                   | 7,762                    |
| Equity income from joint ventures                                                              | (10,393)                 | (7,994)                  |
| Acquired assets and liabilities from component units                                           | (88,885)                 | -                        |
| Other cash payments                                                                            | (40,782)                 | (39,261)                 |
| Total adjustments                                                                              | <u>60,318</u>            | <u>85,699</u>            |
| Net cash provided by operating activities                                                      | <u><u>\$ 586,594</u></u> | <u><u>\$ 579,921</u></u> |

(Continued on the following page)

See accompanying notes to the basic financial statements.

**UNIVERSITY OF COLORADO HEALTH**

**Statements of Cash Flows**  
Years Ended June 30, 2018 and 2017  
(\$s in thousands)

(Continued from the previous page)

|                                       | 2018       | 2017       |
|---------------------------------------|------------|------------|
| Non-cash transactions                 |            |            |
| Donated pharmaceuticals               | \$ 6,662   | \$ 10,383  |
| Construction in progress accrued      | \$ 78,333  | \$ 41,357  |
| Unrealized gain                       | \$ 153,003 | \$ 270,119 |
| Capital leases and mortgages executed | \$ -       | \$ 1,284   |
| Refunding of debt                     | \$ -       | \$ 265,585 |

See accompanying notes to the basic financial statements.

**UNIVERSITY OF COLORADO HEALTH**

**Statements of Fiduciary Net Position**

June 30, 2018 and 2017

(\$s in thousands)

|                                 | 2018       | 2017       |
|---------------------------------|------------|------------|
|                                 | <hr/>      | <hr/>      |
| <b>Assets</b>                   |            |            |
| Investments                     | \$ 822,545 | \$ 710,102 |
|                                 | <hr/>      | <hr/>      |
| <b>Net Position</b>             |            |            |
| Restricted for pension benefits | \$ 822,545 | \$ 710,102 |
|                                 | <hr/>      | <hr/>      |

**Statements of Changes in Fiduciary Net Position**

Years Ended June 30, 2018 and 2017

(\$s in thousands)

|                                       | 2018       | 2017       |
|---------------------------------------|------------|------------|
|                                       | <hr/>      | <hr/>      |
| <b>Additions</b>                      |            |            |
| Contributions                         | \$ 79,213  | \$ 74,356  |
| Investment income                     |            |            |
| Increase in fair value of investments | 33,816     | 63,898     |
| Interest                              | 1,317      | 1,233      |
| Dividends and other                   | 21,262     | 13,479     |
| Investment income                     | <hr/>      | <hr/>      |
| Total additions                       | 56,395     | 78,610     |
|                                       | <hr/>      | <hr/>      |
|                                       | 135,608    | 152,966    |
|                                       | <hr/>      | <hr/>      |
| <b>Deductions</b>                     |            |            |
| Benefits                              | 20,914     | 19,464     |
| Administrative expenses               | 2,251      | 1,746      |
| Total deductions                      | <hr/>      | <hr/>      |
|                                       | 23,165     | 21,210     |
|                                       | <hr/>      | <hr/>      |
| Change in net position                | 112,443    | 131,756    |
| Net position, beginning of year       | <hr/>      | <hr/>      |
|                                       | 710,102    | 578,346    |
|                                       | <hr/>      | <hr/>      |
| Net position, end of year             | \$ 822,545 | \$ 710,102 |
|                                       | <hr/>      | <hr/>      |

See accompanying notes to the basic financial statements.

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (1) Organization and Mission

Effective July 1, 2012, University of Colorado Health ("UCHealth" or the "Health System"), a newly formed non-profit corporation, entered into a joint operating agreement with the University of Colorado Hospital Authority and Poudre Valley Health Care Inc. (collectively, the "members"), resulting in a joint venture among the members. The Health System's mission is "to improve lives in big ways through learning, healing, and discovery; in small, personal ways through human connection; but in all ways, we improve lives." The joint venture enhances the capacity of the members to protect, sustain, and expand their respective missions. As a joint venture, all future operations of the members are combined, and together these combined operations will be the basis for possible future expansion and diversification of the Health System. Under the joint operating agreement, the members of the joint venture become members of the obligated group under each other's master trust indenture and, thereby, pledge their gross revenues to secure each member's obligations. UCHealth is financially accountable for the University of Colorado Hospital Authority, Poudre Valley Health Care Inc., and the Memorial Health System, which are reported as blended component units of the Health System. The Health System's component units are as follows:

- **University of Colorado Hospital Authority ("UCHA")** was created pursuant to Section 23-21-503 of the Colorado Revised Statutes and is a political subdivision and body corporate of the State of Colorado. UCHA owns and operates a 673-licensed-bed, non-sectarian, general acute care hospital; the Anschutz Centers for Advanced Medicine, which include the Anschutz Outpatient Pavilion, the Anschutz Inpatient Pavilion 1, the Anschutz Inpatient Pavilion 2, the Anschutz Cancer Pavilion, the Center for Dependency, Addiction and Rehabilitation ("CeDAR"), and the Rocky Mountain Lions Eye Institute; outlying outpatient primary care clinics; outlying specialty clinics; and the University of Colorado Hospital Foundation. These combined entities are collectively known as UCHA. UCHA is the primary teaching hospital for the University of Colorado Denver ("UCD"), which is comprised of the Schools of Medicine, Nursing, Pharmacy, and Dentistry; the Graduate School; and the School of Public Health. UCHA issues a separate financial report. That report may be obtained by writing to UCHA, Chief Financial Officer, Mail Stop F-417, P.O. Box 6510, Aurora, Colorado 80045.
  - The **University of Colorado Hospital Foundation (the "UCHA Foundation")** is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code (the "Code"). The UCHA Foundation serves as the primary fundraising arm for UCHA and manages restricted and unrestricted donations received for future use by UCHA. Although UCHA does not control the timing or amount of receipts from the UCHA Foundation, the majority of the resources, or income thereon, is restricted to the activities of UCHA by the donors. Because these restricted resources held by the UCHA Foundation can only be used by or for the benefit of UCHA and because the UCHA Foundation exists for the sole benefit of UCHA, the UCHA Foundation is considered a blended component unit of UCHA. All inter-entity transactions have been eliminated in the basic financial statements.
- **Poudre Valley Health Care Inc. ("PVHS")** is a tax-exempt organization under Section 501(c)(3) of the Code. PVHS operates two hospital facilities as follows, which are considered blended component units of PVHS, because their activities are significantly intertwined with PVHS:
  - **Poudre Valley Hospital ("PVH")**, a 234-licensed-bed, non-sectarian, general acute care hospital, which includes Mountain Crest Behavioral Health Services, a behavioral health facility in Fort Collins, Colorado.

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (1) Organization and Mission (continued)

- **Medical Center of the Rockies ("MCR")**, a 174-licensed-bed, non-sectarian, general acute care hospital. MCR is a tax-exempt organization under Section 501(c)(3) of the Code.
- **Poudre Valley Health System Foundation (the "PVHS Foundation")** is a non-profit corporation that was formed to receive, invest, and distribute funds primarily for the benefit of PVH, MCR, and affiliated organizations.
- PVHS is also the sole member of Lakota Lake, LLC; PVHS/Timberline, LLC; Heron Lake, LLC; and Innovation Enterprises, LLC. Each of these entities is considered a blended component unit of PVHS, because their activities are significantly intertwined with PVHS.
- **UCHealth Medical Group (North)** is a physician group and is considered a blended component unit of PVHS, because its activities are significantly intertwined with PVHS. UCHealth Medical Group is a tax-exempt organization under Section 501(c)(3) of the Code.
- **Memorial Health System ("MHS")** – Effective October 1, 2012, an Integration and Affiliation Agreement and Health System Operating Lease Agreement with the City of Colorado Springs was executed with the purpose of leasing MHS. UCHA created the UCH-MHS entity to assume operations of MHS upon receipt of confirmation of exempt status from the IRS, which occurred on August 1, 2014. The original lease is for a 40-year term, with renewals or extensions anticipated. UCHA guarantees MHS's obligations under the lease, and the gross revenues of MHS are pledged to secure the obligations under each member's master trust indenture. Therefore, MHS is considered a blended component unit of the Health System. The operations of MHS are as follows:
  - **Memorial Hospital Central**, a 583-licensed-bed, non-sectarian, general acute care hospital.
  - **Memorial Hospital North**, an 88-licensed-bed, non-sectarian, general acute care hospital.
  - **UCHealth Medical Group (South)** is a physician group and is considered a blended component unit of MHS, because its activities are significantly intertwined with MHS. UCHealth Medical Group is a tax-exempt organization under Section 501(c)(3) of the Code.
  - **Memorial Hospital Corporation** is a non-profit corporation that is controlled by MHS and considered a blended component unit of MHS.
- UCHealth is the sole member of **UCHealth Plan Administrators, LLC ("UCHPA")**, a third-party administrator delivering a comprehensive services suite to partially self-funded benefit plan arrangements to employers. UCHPA is considered a blended component unit of UCHealth, because its activities are significantly intertwined with UCHealth.
- At June 30, 2017, UCHealth was the 75% member of **ICHealth, LLC ("ICHealth")**, a partnership organized in 2017 to qualify and operate as an accountable care organization participating in the Medicare Shared Savings Program, support improvements in high-quality care through population management techniques, and contain the total costs of care. During 2018, UCHealth acquired the remaining 25% ownership of ICHealth. ICHealth is considered a blended component unit of UCHealth, because its activities are significantly intertwined with UCHealth.

## UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

### (1) Organization and Mission (continued)

- **Other Entities** – UCHealth is also comprised of the following, which are considered blended component units of UCHealth because their activities are significantly intertwined with UCHealth:
  - **Longs Peak Hospital ("LPH")** is a 51-bed non-sectarian, general acute care hospital. LPH is a tax-exempt organization under Section 501(c)(3) of the Code.
  - **Longs Peak Hospital Foundation ("LPH Foundation")** is a non-profit corporation that was formed to receive, invest, and distribute funds primarily for the benefit of LPH.
  - **Highlands Ranch Hospital ("HRH")**, which is currently under construction, will be a non-sectarian, general acute care hospital.
  - **Greeley Hospital ("GH")**, which is currently under construction, will be a non-sectarian, general acute care hospital.
  - **Longs Peak Surgery Center LLC ("LPSC")** is an ambulatory surgery center that began operations in 2016.
  - **UCHealth Medical Group (Longmont)** is a physician group that joined the Health System effective January 1, 2015. UCHealth Medical Group is a tax-exempt organization under Section 501(c)(3) of the Code.
  - **UCHealth Medical Group (Metro Denver)** is a physician group made up of newly acquired and opened physician practices in the Metro Denver area. UCHealth Medical Group is a tax-exempt organization under Section 501(c)(3) of the Code.
  - **UCHealth Community Services ("UCHCS")** was formed in 2017 as a Colorado non-profit corporation to operate outpatient healthcare facilities, such as multi-specialty clinics and physical therapy clinics.
  - **UCHealth Emergency Physician Services ("UCHEPS")** was formed in 2017 as a Colorado limited liability company to provide emergency physician services and the services of other healthcare staff to emergency departments.
  - **Yampa Valley Medical Center ("YVMC")** is a 39-bed acute care hospital located in Steamboat Springs, Colorado. YVMC joined UCHealth through an Integration and Affiliation Agreement effective September 1, 2017. YVMC is a tax-exempt organization under Section 501(c)(3) of the Code.
  - **UCHealth Partners, LLC ("UCHealth Partners")** is a limited liability company formed in 2015, in which UCHealth had a 50.1% ownership interest. Effective December 1, 2017, UCHealth purchased the remaining 49.9% of UCHealth Partners. UCHealth Partners includes Broomfield Hospital, a 22-bed acute care hospital in Broomfield, Colorado, and Grandview Hospital, a 22-bed acute care hospital in Colorado Springs, Colorado. In December 2017 UCHealth Partners also included the operation of 17 freestanding emergency departments in the Denver and Colorado Springs metropolitan areas. In May 2018, the assets of 14 of these locations were transferred to other hospitals within UCHealth.

## UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
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### (1) Organization and Mission (continued)

- **UCHealth Pikes Peak Regional Hospital (“PPRH”)** is a 15-bed critical access hospital located in Woodland Park, Colorado. PPRH joined UCHealth through an agreement to acquire specific assets of Pikes Peak Regional Hospital from Brim Healthcare of Colorado, LLC effective April 1, 2018. PPRH was formed as a Colorado non-profit corporation in 2018.

**Memorial Health System Foundation (the “MHS Foundation”)** is a not-for-profit organization formed for the benefit of MHS. Fundraising efforts for the benefit of MHS are undertaken by the MHS Foundation. However, the assets held by the Foundation remained assets of the MHS Foundation and were not transferred to MHS under either the Integration and Affiliation Agreement or the Health System Operating Lease Agreement. Therefore, the MHS Foundation is not reported as a component unit of MHS.

The accompanying basic financial statements reflect the operations and financial position of the Health System, its component units, and its fiduciary (pension trust) fund. The Health System is not an agency of the state government and is not subject to administrative direction or control by the Regents of the University of Colorado (the “Regents”) or any department, commission, board, or agency of the state. The Health System is not financially accountable to the Regents. Two of the eleven members of the Health System's Board of Directors (the “Board”) are appointed by the President of the University of Colorado.

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (2) Condensed Combining Information

Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of each major blended component unit at June 30, 2018 and 2017 are summarized in Tables 1 and 2, respectively.

**Table 1**  
**Condensed Combining Information**  
**Balance Sheet as of June 30, 2018**

|                                                                    | UCHA                | PVHS                | MHS               | Other<br>Operations<br>and<br>Eliminations | Combined            |
|--------------------------------------------------------------------|---------------------|---------------------|-------------------|--------------------------------------------|---------------------|
| <b>Assets</b>                                                      |                     |                     |                   |                                            |                     |
| Current receivables from affiliates                                | \$ 341,493          | \$ 237,747          | \$ 14,579         | \$ (593,819)                               | \$ -                |
| Other current assets                                               | 590,132             | 299,621             | 141,840           | 115,017                                    | 1,146,610           |
| Capital assets, net of accumulated depreciation                    | 845,466             | 427,222             | 395,256           | 752,435                                    | 2,420,379           |
| Non-current receivables from affiliates                            | 763,840             | -                   | -                 | (763,840)                                  | -                   |
| Non-current assets and other assets                                | <u>1,950,172</u>    | <u>1,519,136</u>    | <u>113,694</u>    | <u>60,822</u>                              | <u>3,643,824</u>    |
| Total assets                                                       | <u>4,491,103</u>    | <u>2,483,726</u>    | <u>665,369</u>    | <u>(429,385)</u>                           | <u>7,210,813</u>    |
| Deferred outflows of resources                                     | <u>20,004</u>       | <u>10,984</u>       | <u>13,908</u>     | <u>22,857</u>                              | <u>67,753</u>       |
| Total assets and deferred outflows of resources                    | <u>\$ 4,511,107</u> | <u>\$ 2,494,710</u> | <u>\$ 679,277</u> | <u>\$ (406,528)</u>                        | <u>\$ 7,278,566</u> |
| <b>Liabilities</b>                                                 |                     |                     |                   |                                            |                     |
| Current payables to affiliates                                     | \$ -                | \$ 7,027            | \$ 4,226          | \$ (11,253)                                | \$ -                |
| Other current liabilities                                          | 411,995             | 185,526             | 155,772           | 190,648                                    | 943,941             |
| Non-current payables to affiliates                                 | -                   | 189,013             | 327,077           | (516,090)                                  | -                   |
| Other long-term liabilities                                        | <u>1,465,251</u>    | <u>248,649</u>      | <u>104,121</u>    | <u>48,684</u>                              | <u>1,866,705</u>    |
| Total liabilities                                                  | <u>1,877,246</u>    | <u>630,215</u>      | <u>591,196</u>    | <u>(288,011)</u>                           | <u>2,810,646</u>    |
| Deferred inflows of resources                                      | <u>5,792</u>        | <u>1,903</u>        | <u>4,058</u>      | <u>1,607</u>                               | <u>13,360</u>       |
| <b>Net position</b>                                                |                     |                     |                   |                                            |                     |
| Invested in capital assets, net of related debt                    | 136,646             | 2,964               | (47,948)          | 447,181                                    | 538,843             |
| Restricted                                                         |                     |                     |                   |                                            |                     |
| Expendable                                                         | 11,585              | 29,122              | 24                | 20,776                                     | 61,507              |
| Non-expendable                                                     | 21,445              | 34,841              | -                 | 26                                         | 56,312              |
| Unrestricted                                                       | <u>2,458,393</u>    | <u>1,795,665</u>    | <u>131,947</u>    | <u>(588,107)</u>                           | <u>3,797,898</u>    |
| Net position                                                       | <u>2,628,069</u>    | <u>1,862,592</u>    | <u>84,023</u>     | <u>(120,124)</u>                           | <u>4,454,560</u>    |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 4,511,107</u> | <u>\$ 2,494,710</u> | <u>\$ 679,277</u> | <u>\$ (406,528)</u>                        | <u>\$ 7,278,566</u> |

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (2) Condensed Combining Information (continued)

**Table 2**  
**Condensed Combining Information**  
**Balance Sheet as of June 30, 2017**

|                                                                    | UCHA                | PVHS                | MHS               | Other<br>Operations<br>and<br>Eliminations | Combined            |
|--------------------------------------------------------------------|---------------------|---------------------|-------------------|--------------------------------------------|---------------------|
| <b>Assets</b>                                                      |                     |                     |                   |                                            |                     |
| Current receivables from affiliates                                | \$ 160,588          | \$ 111,110          | \$ 8,630          | \$ (280,328)                               | \$ -                |
| Other current assets                                               | 541,979             | 276,938             | 126,532           | 42,388                                     | 987,837             |
| Capital assets, net of accumulated depreciation                    | 864,952             | 439,871             | 334,319           | 355,531                                    | 1,994,673           |
| Non-current receivables from affiliates                            | 770,503             | -                   | -                 | (770,503)                                  | -                   |
| Non-current assets and other assets                                | <u>1,739,307</u>    | <u>1,304,986</u>    | <u>127,773</u>    | <u>170,439</u>                             | <u>3,342,505</u>    |
| Total assets                                                       | <u>4,077,329</u>    | <u>2,132,905</u>    | <u>597,254</u>    | <u>(482,473)</u>                           | <u>6,325,015</u>    |
| Deferred outflows of resources                                     | <u>22,596</u>       | <u>7,907</u>        | <u>13,416</u>     | <u>9,709</u>                               | <u>53,628</u>       |
| Total assets and deferred outflows of resources                    | <u>\$ 4,099,925</u> | <u>\$ 2,140,812</u> | <u>\$ 610,670</u> | <u>\$ (472,764)</u>                        | <u>\$ 6,378,643</u> |
| <b>Liabilities</b>                                                 |                     |                     |                   |                                            |                     |
| Current payables to affiliates                                     | \$ -                | \$ 6,691            | \$ 4,456          | \$ (11,147)                                | \$ -                |
| Other current liabilities                                          | 405,827             | 146,258             | 134,386           | 114,708                                    | 801,179             |
| Non-current payables to affiliates                                 | -                   | 201,967             | 329,272           | (531,239)                                  | -                   |
| Other long-term liabilities                                        | <u>1,496,522</u>    | <u>249,075</u>      | <u>105,538</u>    | <u>12,962</u>                              | <u>1,864,097</u>    |
| Total liabilities                                                  | <u>1,902,349</u>    | <u>603,991</u>      | <u>573,652</u>    | <u>(414,716)</u>                           | <u>2,665,276</u>    |
| Deferred inflows of resources                                      | <u>4,719</u>        | <u>(742)</u>        | <u>2,690</u>      | <u>(850)</u>                               | <u>5,817</u>        |
| <b>Net position</b>                                                |                     |                     |                   |                                            |                     |
| Invested in capital assets, net of related debt                    | 130,563             | 2,859               | (99,556)          | 80,805                                     | 114,671             |
| Restricted                                                         |                     |                     |                   |                                            |                     |
| Expendable                                                         | 21,907              | 36,283              | 9,764             | 93,863                                     | 161,817             |
| Non-expendable                                                     | 21,534              | 29,184              | -                 | 1,977                                      | 52,695              |
| Unrestricted                                                       | <u>2,018,853</u>    | <u>1,469,237</u>    | <u>124,120</u>    | <u>(233,843)</u>                           | <u>3,378,367</u>    |
| Net position                                                       | <u>2,192,857</u>    | <u>1,537,563</u>    | <u>34,328</u>     | <u>(57,198)</u>                            | <u>3,707,550</u>    |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 4,099,925</u> | <u>\$ 2,140,812</u> | <u>\$ 610,670</u> | <u>\$ (472,764)</u>                        | <u>\$ 6,378,643</u> |

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (2) Condensed Combining Information (continued)

Revenue, expenses, and changes in net position are summarized in Tables 3 and 4 for fiscal years 2018 and 2017, respectively.

**Table 3**  
**Condensed Combining Information**  
**Statement of Revenue, Expenses, and Changes in Net Position**  
**Year Ended June 30, 2018**

|                                                                     | UCHA                | PVHS                | MHS              | Other<br>Operations<br>and<br>Eliminations | Combined            |
|---------------------------------------------------------------------|---------------------|---------------------|------------------|--------------------------------------------|---------------------|
| Operating revenue                                                   |                     |                     |                  |                                            |                     |
| Net patient service revenue                                         | \$ 1,873,879        | \$ 1,273,178        | \$ 893,218       | \$ 228,866                                 | \$ 4,269,141        |
| Other operating revenue                                             | 12,905              | 26,841              | 23,170           | 9,429                                      | 72,345              |
| Total operating revenue                                             | <u>1,886,784</u>    | <u>1,300,019</u>    | <u>916,388</u>   | <u>238,295</u>                             | <u>4,341,486</u>    |
| Operating expenses                                                  |                     |                     |                  |                                            |                     |
| Wages, contract labor, and benefits                                 | 605,850             | 571,142             | 462,130          | 167,284                                    | 1,806,406           |
| Supplies                                                            | 464,795             | 238,454             | 165,214          | 38,537                                     | 907,000             |
| Purchased services and other expenses                               | 429,152             | 183,215             | 183,832          | 106,474                                    | 902,673             |
| Depreciation and amortization                                       | 78,028              | 55,684              | 37,211           | 28,208                                     | 199,131             |
| Total operating expenses                                            | <u>1,577,825</u>    | <u>1,048,495</u>    | <u>848,387</u>   | <u>340,503</u>                             | <u>3,815,210</u>    |
| Operating income (loss)                                             | <u>308,959</u>      | <u>251,524</u>      | <u>68,001</u>    | <u>(102,208)</u>                           | <u>526,276</u>      |
| Non-operating revenue and expenses                                  |                     |                     |                  |                                            |                     |
| Interest expense                                                    | (42,709)            | (16,716)            | (14,665)         | 20,848                                     | (53,242)            |
| Investment income                                                   | 174,106             | 105,391             | 7,601            | (23,845)                                   | 263,253             |
| Unrealized gain (loss) on derivative instruments                    | 7,663               | 6,335               | (399)            | -                                          | 13,599              |
| Other, net                                                          | (15,278)            | (13,448)            | (11,170)         | (1,318)                                    | (41,214)            |
| Total non-operating revenue and expenses                            | <u>123,782</u>      | <u>81,562</u>       | <u>(18,633)</u>  | <u>(4,315)</u>                             | <u>182,396</u>      |
| Income (loss) before distributions, contributions, and acquisitions | 432,741             | 333,086             | 49,368           | (106,523)                                  | 708,672             |
| Distributions to minority interest in component unit                | -                   | (8,759)             | -                | (1,737)                                    | (10,496)            |
| Contributions (to) from affiliates                                  | (890)               | (890)               | -                | 1,780                                      | -                   |
| Contributions restricted for capital assets                         | -                   | 12                  | -                | -                                          | 12                  |
| Contributions restricted, other                                     | 3,361               | 1,580               | 327              | 217                                        | 5,485               |
| Acquisitions of interests in component units                        | <u>-</u>            | <u>-</u>            | <u>-</u>         | <u>43,337</u>                              | <u>43,337</u>       |
| Change in net position                                              | 435,212             | 325,029             | 49,695           | (62,926)                                   | 747,010             |
| Net position, beginning of year                                     | <u>2,192,857</u>    | <u>1,537,563</u>    | <u>34,328</u>    | <u>(57,198)</u>                            | <u>3,707,550</u>    |
| Net position, end of year                                           | <u>\$ 2,628,069</u> | <u>\$ 1,862,592</u> | <u>\$ 84,023</u> | <u>\$ (120,124)</u>                        | <u>\$ 4,454,560</u> |

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (2) Condensed Combining Information (continued)

**Table 4**  
**Condensed Combining Information**  
**Statement of Revenue, Expenses, and Changes in Net Position**  
**Year Ended June 30, 2017**

|                                                                           | UCHA                | PVHS                | MHS              | Other<br>Operations<br>and<br>Eliminations | Combined            |
|---------------------------------------------------------------------------|---------------------|---------------------|------------------|--------------------------------------------|---------------------|
| Operating revenue                                                         |                     |                     |                  |                                            |                     |
| Net patient service revenue                                               | \$ 1,623,588        | \$ 1,157,168        | \$ 781,425       | \$ 38,128                                  | \$ 3,600,309        |
| Other operating revenue                                                   | 22,450              | 30,771              | 17,032           | (2,286)                                    | 67,967              |
| Total operating revenue                                                   | <u>1,646,038</u>    | <u>1,187,939</u>    | <u>798,457</u>   | <u>35,842</u>                              | <u>3,668,276</u>    |
| Operating expenses                                                        |                     |                     |                  |                                            |                     |
| Wages, contract labor, and benefits                                       | 556,330             | 525,865             | 385,817          | 46,694                                     | 1,514,706           |
| Supplies                                                                  | 385,469             | 221,244             | 148,876          | 6,482                                      | 762,071             |
| Purchased services and other expenses                                     | 371,410             | 173,026             | 166,019          | 12,545                                     | 723,000             |
| Depreciation and amortization                                             | 77,917              | 54,498              | 38,303           | 3,559                                      | 174,277             |
| Total operating expenses                                                  | <u>1,391,126</u>    | <u>974,633</u>      | <u>739,015</u>   | <u>69,280</u>                              | <u>3,174,054</u>    |
| Operating income (loss)                                                   | <u>254,912</u>      | <u>213,306</u>      | <u>59,442</u>    | <u>(33,438)</u>                            | <u>494,222</u>      |
| Non-operating revenue and expenses                                        |                     |                     |                  |                                            |                     |
| Interest expense                                                          | (35,420)            | (15,887)            | (15,431)         | 15,883                                     | (50,855)            |
| Investment income                                                         | 211,681             | 131,997             | 10,295           | (18,863)                                   | 335,110             |
| Unrealized gain (loss) on derivative instruments                          | 14,413              | (3,237)             | 869              | -                                          | 12,045              |
| Other, net                                                                | (14,436)            | (12,389)            | (11,747)         | (362)                                      | (38,934)            |
| Total non-operating revenue and expenses                                  | <u>176,238</u>      | <u>100,484</u>      | <u>(16,014)</u>  | <u>(3,342)</u>                             | <u>257,366</u>      |
| Income (loss) before distributions and contributions                      | 431,150             | 313,790             | 43,428           | (36,780)                                   | 751,588             |
| (Distributions to) contributions from minority interest in component unit | -                   | (7,184)             | -                | 2,500                                      | (4,684)             |
| Contributions restricted for capital assets                               | 10                  | -                   | -                | -                                          | 10                  |
| Contributions restricted, other                                           | 1,537               | 2,193               | 273              | 13                                         | 4,016               |
| Change in net position                                                    | 432,697             | 308,799             | 43,701           | (34,267)                                   | 750,930             |
| Net position, beginning of year                                           | <u>1,760,160</u>    | <u>1,228,764</u>    | <u>(9,373)</u>   | <u>(22,931)</u>                            | <u>2,956,620</u>    |
| Net position, end of year                                                 | <u>\$ 2,192,857</u> | <u>\$ 1,537,563</u> | <u>\$ 34,328</u> | <u>\$ (57,198)</u>                         | <u>\$ 3,707,550</u> |

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (2) Condensed Combining Information (continued)

Cash flows are summarized in Tables 5 and 6 for fiscal years 2018 and 2017, respectively.

**Table 5**  
**Condensed Combining Information**  
**Statement of Cash Flows**  
**Year Ended June 30, 2018**

|                                              | UCHA              | PVHS              | MHS             | Other<br>Operations<br>and<br>Eliminations | Combined          |
|----------------------------------------------|-------------------|-------------------|-----------------|--------------------------------------------|-------------------|
| Net cash provided by (used in)               |                   |                   |                 |                                            |                   |
| Operating activities                         | \$ 132,272        | \$ 175,854        | \$ 71,229       | \$ 207,239                                 | \$ 586,594        |
| Capital and related financing activities     | (108,210)         | (74,287)          | (97,985)        | (302,022)                                  | (582,504)         |
| Investing activities                         | (30,511)          | (98,701)          | 22,730          | 108,704                                    | 2,222             |
| Net increase in cash and cash equivalents    | (6,449)           | 2,866             | (4,026)         | 13,921                                     | 6,312             |
| Cash and cash equivalents, beginning of year | 176,833           | 127,757           | 13,131          | 6,320                                      | 324,041           |
| Cash and cash equivalents, end of year       | <u>\$ 170,384</u> | <u>\$ 130,623</u> | <u>\$ 9,105</u> | <u>\$ 20,241</u>                           | <u>\$ 330,353</u> |

**Table 6**  
**Condensed Combining Information**  
**Statement of Cash Flows**  
**Year Ended June 30, 2017**

|                                              | UCHA              | PVHS              | MHS              | Other<br>Operations<br>and<br>Eliminations | Combined          |
|----------------------------------------------|-------------------|-------------------|------------------|--------------------------------------------|-------------------|
| Net cash provided by (used in)               |                   |                   |                  |                                            |                   |
| Operating activities                         | \$ 199,827        | \$ 197,117        | \$ 78,190        | \$ 104,787                                 | \$ 579,921        |
| Capital and related financing activities     | (50,534)          | (92,308)          | (50,911)         | 49,298                                     | (144,455)         |
| Investing activities                         | (16,188)          | (16,110)          | (18,507)         | (153,762)                                  | (204,567)         |
| Net increase in cash and cash equivalents    | 133,105           | 88,699            | 8,772            | 323                                        | 230,899           |
| Cash and cash equivalents, beginning of year | 43,728            | 39,058            | 4,359            | 5,997                                      | 93,142            |
| Cash and cash equivalents, end of year       | <u>\$ 176,833</u> | <u>\$ 127,757</u> | <u>\$ 13,131</u> | <u>\$ 6,320</u>                            | <u>\$ 324,041</u> |

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (3) Summary of Significant Accounting Policies

### (a) Basis of Presentation

The accompanying basic financial statements have been prepared on the accrual basis of accounting and economic resource measurement focus in accordance with accounting principles generally accepted in the United States of America.

The accounts of the Health System are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that are comprised of its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and revenue and expenses, as appropriate.

The enterprise fund is used to account for the Health System's ongoing activities. The balance sheets; statements of revenue, expenses, and changes in net position; and statements of cash flows do not include the pension trust fund.

The pension trust fund is used to account for assets held in trust for the benefit of the employees of the Health System (all of whom are actually employed by UCHA) for the non-contributory defined benefit pension plan (the "Basic Pension Plan"). In accordance with the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the assets and net position of the pension trust fund are presented separately from the enterprise fund. The basic financial statements of the pension trust fund are prepared using the accrual basis of accounting. Employer contributions to the Basic Pension Plan are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the Basic Pension Plan.

### (b) Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

### (c) Net Position

The Health System's net position is classified as follows:

- *Invested in capital assets, net of related debt* – consists of capital assets net of accumulated depreciation reduced by the amount of outstanding debt issued to finance the purchase or construction of those assets.
- *Restricted* – consists of net position with constraints on its use imposed by external parties, such as creditors (through debt covenants) and donors. The non-expendable portion includes net position required through agreement with donors to be retained in perpetuity as well as the minority interest's ownership percentage in component units of UCHealth.
- *Unrestricted* – consists of the remaining net position that is available for unrestricted use.

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## **(3) Summary of Significant Accounting Policies (continued)**

### ***(c) Net Position (continued)***

When the Health System has both restricted and unrestricted resources available to finance a particular program, it is the Health System's practice to use restricted resources before unrestricted resources.

### ***(d) Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with initial maturities of three months or less, excluding amounts restricted under trust agreements.

### ***(e) Investments and Restricted Investments***

Investments include assets designated by the Board for future capital improvements and undesignated investments. Restricted investments include assets held by trustees under bond indenture and insurance agreements.

The Health System records all debt and equity investment securities at fair value. Short-term investments are reported at cost, which approximates fair value. Fair values are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Interest, dividends, and realized and unrealized gains and losses, based on the specific identification method, are included in non-operating revenue and expenses when earned.

The Health System's Basic Pension Plan holds assets that include alternative investments, which are not readily marketable and are carried at fair value as provided by the investment managers. The UCHA Board of Directors (the "UCHA Board") is the fiduciary of the plan, and the Health System reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

### ***(f) Inventories***

Inventories, which consist primarily of pharmaceuticals and medical supplies, are valued under a combination of the lower of cost (first in, first out) or market and a weighted average.

### ***(g) Capital Assets***

Capital assets are recorded at cost or, if donated, at acquisition value at the date of receipt. Interest incurred, net of interest earned on related funds held by a trustee under bond agreements, in connection with borrowings to finance major construction or expansion of facilities, is capitalized until the related assets are put into service and subsequently amortized over the lives of the related assets. All capital assets are depreciated or amortized over the estimated useful life of each class of assets using the straight-line method. Useful lives for buildings and improvements are 20-40 years, equipment is 3-15 years, and leasehold improvements are 3-20 years.

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## **(3) Summary of Significant Accounting Policies (continued)**

### ***(g) Capital Assets (continued)***

The Health System's long-lived assets consist primarily of buildings and building improvements, equipment, and leasehold improvements, which are subject to the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

### ***(h) Deferred Amortization on Refundings***

For bond refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and amortized using the effective interest rate method over the shorter of the life of the old debt or the life of the new debt.

### ***(i) Deferred Amortization on Acquisitions***

The Health System recognizes a deferred outflow of resources when the consideration provided in a government acquisition exceeds the net position acquired. This deferred amortization on acquisition is amortized to future periods in a systematic and rational manner, considering the relevant circumstances of the acquisition.

### ***(j) Compensated Absences***

All staff working at UCHealth facilities or working in UCHealth system operations are employees of UCHA. UCHA employees use paid time off ("PTO") for vacation, holidays, personal short-term illness, family member illness, and personal absences. Health System employees generally earn PTO based on length of service and actual hours worked. The Health System records PTO expense as it is earned. The current portion of PTO is based on employee tenure, rate of pay, and accrued hours. Amounts in excess of an employee's annual accrual are classified as long-term liabilities.

### ***(k) Financial Instruments***

Financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, restricted investments, long-term investments, interest rate swap agreements, current liabilities, and long-term debt obligations. The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, and current liabilities approximate fair value. Management's estimate of the fair value of the other financial instruments is described in Notes 6, 7, and 12 to the basic financial statements.

The Health System utilizes interest rate swaps to cover exposure to changes in interest rates. The fair value of these derivative instruments is required to be recognized as either an asset or liability on the balance sheets. Changes in fair values of derivative instruments that are determined to be ineffective hedges, as is the case of the Health System's interest rate swaps, are reported within non-operating revenue and expenses in the period when the change in fair value occurs.

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (3) Summary of Significant Accounting Policies (continued)

### (l) Endowments

The Health System's endowments consist of individual funds restricted by donors for a variety of purposes. The State of Colorado's Uniform Prudent Management of Institutional Funds Act requires preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this, the Health System classifies as non-expendable restricted net position the original value of the gifts donated to the permanent endowment. The appreciation on donor-restricted endowment funds is classified as expendable restricted net position until those amounts are appropriated for expenditure by the Health System. The Health System may spend the net appreciation on the endowment funds based on the individual endowment fund agreements and considers factors such as duration and preservation of the fund, purposes of the fund, general economic conditions, possible effects of inflation and deflation, expected total return from investment income, and other resources of the Health System when determining the amounts to authorize and spend in an individual year. The amount of net appreciation on endowments available for expenditure at June 30, 2018 and 2017 was \$3,653 and \$2,572, respectively.

### (m) Minority Interests in Component Units

Included in minority interests in component units represents the 12% interest in MCR that is not owned by PVHS and the 25% interest in ICHHealth that previously was not owned by UCHealth in 2017. For the years ended June 30, 2018 and 2017, changes in net position attributable to the controlling financial interest of UCHealth and the minority interest are:

#### June 30, 2018

|                                                              | Total               | Controlling Interest | Minority Interest |
|--------------------------------------------------------------|---------------------|----------------------|-------------------|
| Income before distributions, contributions, and acquisitions | \$ 708,672          | \$ 694,530           | \$ 14,142         |
| Net distributions to minority interest in component unit     | (10,496)            | -                    | (10,496)          |
| Contributions restricted for capital assets                  | 12                  | 12                   | -                 |
| Contributions restricted, other                              | 5,485               | 5,485                | -                 |
| Acquisitions of interests in component units                 | 43,337              | 43,337               | -                 |
| Change in net position                                       | 747,010             | 743,364              | 3,646             |
| Net position, beginning of year                              | 3,707,550           | 3,682,844            | 24,706            |
| Net position, end of year                                    | <u>\$ 4,454,560</u> | <u>\$ 4,426,208</u>  | <u>\$ 28,352</u>  |

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (3) Summary of Significant Accounting Policies (continued)

### *(m) Minority Interest in Component Unit (continued)*

June 30, 2017

|                                                                                    | Total                      | Controlling<br>Interest    | Minority<br>Interest    |
|------------------------------------------------------------------------------------|----------------------------|----------------------------|-------------------------|
| Income before distributions and contributions                                      | \$ 751,588                 | \$ 740,880                 | \$ 10,708               |
| Net distributions to and contributions from<br>minority interest in component unit | (4,684)                    | -                          | (4,684)                 |
| Contributions restricted for capital assets                                        | 10                         | 10                         | -                       |
| Contributions restricted, other                                                    | <u>4,016</u>               | <u>4,016</u>               | <u>-</u>                |
| Change in net position                                                             | 750,930                    | 744,906                    | 6,024                   |
| Net position, beginning of year                                                    | <u>2,956,620</u>           | <u>2,937,938</u>           | <u>18,682</u>           |
| Net position, end of year                                                          | <u><u>\$ 3,707,550</u></u> | <u><u>\$ 3,682,844</u></u> | <u><u>\$ 24,706</u></u> |

### *(n) Revenue and Expenses*

The Health System's statements of revenue, expenses, and changes in net position distinguish between operating and non-operating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services and includes patient service and other revenue. Non-exchange revenue includes investment income and restricted contributions and is reported as non-operating revenue. Operating expenses are all expenses incurred to provide healthcare services. Non-operating expenses include interest expense, fundraising activities, and gain or loss on disposal of capital assets.

### *(o) Costs of Shared Services*

The costs of shared services provided by UCHHealth to the individual component units are combined to determine the full costs of shared services. These costs are then reallocated back to the individual component units based on a set of drivers, which are used to estimate the relative usage of such shared services by each component unit.

### *(p) Net Patient Service Revenue*

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Amounts reimbursed for services rendered to patients covered under the Medicare and Medicaid programs are generally less than established billing rates. The Health System also provides services to beneficiaries of certain other third-party payor programs at amounts less than its established rates based on contractual arrangements. Differences between established billing rates and amounts reimbursed are recognized as contractual adjustments.

## UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

### (3) Summary of Significant Accounting Policies (continued)

#### (q) Risk Management

The Health System is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; fiduciary liability; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. UCHA is insured for medical malpractice claims and judgments through the University of Colorado Self-Insurance and Risk Management Trust. Other hospitals and operations maintain malpractice insurance through claims-made commercial insurance policies. Insurance coverage for all other lines of insurance, including theft, property damage, occupational and non-occupational injuries and accidents, business interruption, automobile, non-owned aircraft, employee health, dental, errors and omission, and fiduciary, are covered by commercial insurance companies.

#### (r) Income Taxes

UCHealth has a determination letter from the IRS, which states that it is exempt under Section 501(a) as an organization described in Section 501(c)(3) of the Code. UCHA, PVH, MCR, LPH, YVMC, UCH-MHS, Memorial Hospital Corporation, UCHealth Medical Group, the LPH Foundation, the PVHS Foundation, and the UCHA Foundation are also exempt under Section 501(a) as organizations described in Section 501(c)(3) of the Code. UCHA is a political subdivision and body corporate of the State of Colorado and, as such, the income generated by UCHA in the exercise of its essential government function is exempt from federal income tax under Section 115 of the Code. Lakota Lake, LLC; PVHS/Timberline, LLC; Heron Lake, LLC; and United Medical Alliance act as tax flow-through entities to PVHS, which, as noted, is tax-exempt under Section 501(c)(3) of the Code. UCHPA, UCHCS, UCHEPS and UCHealth Partners act as tax flow-through entities to UCHealth, which, as noted, is tax-exempt under Section 501(a) of the Code. LPSC acts as a tax flow through entity to UCHealth (99%) and LPH (1%). HRH, GH, and PPRH are pending exemption as organizations described in Section 501(c)(3) of the Code. Innovation Enterprises is a corporation subject to state and federal income tax. The Health System recognizes unrelated business income tax for activities that are outside of the Health System's tax-exempt mission. The Health System has recognized a tax liability of \$2,179 and \$2,325 at June 30, 2018 and 2017, respectively, for unrelated business income taxes.

#### (s) Pension Plans

The Health System accounts for its pension plan under GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. GASB Statement No. 67 establishes standards of financial reporting for separately issued financial reports of defined benefit pension plans, and specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan, about which information is required to be presented. GASB Statement No. 68 revises and establishes new financial reporting requirements for most governmental entities that provide their employees with pension benefits.

## UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

### (3) Summary of Significant Accounting Policies (continued)

#### (s) Pension Plans (continued)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Basic Pension Plan and additions to/deductions from the Basic Pension Plan's fiduciary net position have been determined on the same basis as they are reported by the Basic Pension Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### (t) New Accounting Pronouncements

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which supersedes GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 89 enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies the accounting for interest cost incurred before the end of a construction period. GASB Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The new rules will be effective for UCHealth for the year ending June 30, 2020.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves the accounting and financial reporting for leases by governments for the financial statement users. GASB Statement No. 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The new rules will be effective for UCHealth for the year ending June 30, 2021.

UCHealth is currently in the process of evaluating the impact of adopting the new rules on UCHealth's financial position of the business-type activities and the fiduciary fund information, changes in financial position, and cash flows.

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (4) Net Patient Service Revenue

The following summary details gross charges and uncompensated care resulting from contractual allowances, bad debts, self-pay discounts, and unsponsored charges for the year ended June 30:

|                                                                                        | 2018                | 2017                |
|----------------------------------------------------------------------------------------|---------------------|---------------------|
| Gross charges                                                                          | \$ 15,573,685       | \$ 12,755,871       |
| Third-party contractual allowances                                                     | (11,008,148)        | (8,928,239)         |
| Indigent and charity care                                                              | (130,731)           | (116,452)           |
| Provision for bad debt                                                                 | (205,124)           | (146,948)           |
| Self-pay packages and other discounts                                                  | (174,152)           | (134,155)           |
| Reimbursement under the Colorado Provider Fee Program,<br>net of pass-through payments | <u>213,611</u>      | <u>170,232</u>      |
| Net patient service revenue                                                            | <u>\$ 4,269,141</u> | <u>\$ 3,600,309</u> |

The Health System has programs that receive add-on payments to the established rate or that are paid at a reasonable cost by third-party payors. Amounts received for these additional payments from Medicare, Medicaid, and TriCare programs are subject to audit and retroactive adjustment. Generally, provisions for estimated retroactive adjustments under such programs are provided in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue under the Medicare and Medicaid programs was approximately \$1,384,826 and \$1,219,433 in 2018 and 2017, respectively.

#### (a) Medicare

Inpatient acute care services rendered to Medicare beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a Diagnostic-Related Group patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicare beneficiaries are paid based upon the Ambulatory Payment Classification system. The Health System is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicare fiscal intermediary. The Health System's classifications of patients under the Medicare program and medical necessity of procedures performed are subject to an independent audit by a peer review organization under contract with the Health System. UCHA's Medicare cost reports have been audited and settled by the Medicare administrative contractor through June 30, 2014. PVH's Medicare cost reports have been audited and settled by the Medicare administrative contractor through June 30, 2015. MCR's Medicare cost reports have been audited and settled by the Medicare administrative contractor through June 30, 2016. MHS's Medicare cost reports have been audited through June 30, 2015; however, Medicare cost report year 2008 has not yet been settled by the Medicare administrative contractor. YVMC's Medicare cost reports have been audited and settled by the Medicare administrative contractor through September 30, 2016. PPRH's Medicare cost reports have been audited and settled by the Medicare administrative contractor through December 31, 2015.

## UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

### **(4) Net Patient Service Revenue (continued)**

#### ***(b) Medicaid***

Inpatient services rendered to Medicaid beneficiaries are reimbursed under a prospectively determined system similar to Medicare. Prior to October 31, 2016, outpatient services are reimbursed by a combination of fee schedule and a tentative payment rate with final settlement determined after submission of an annual cost report by the Health System and audits thereof by the Medicaid fiscal intermediary. Beginning October 31, 2016, outpatient services are reimbursed based on the product of a hospital-specific base rate and the Enhanced Ambulatory Patient Group's adjusted relative weight. The Health System's classification of patients under the Medicaid program and medical necessity of procedures performed are subject to an independent audit by a peer review organization under contract with the Health System. UCHA's Medicaid cost reports have been audited and settled by the Medicaid fiscal intermediary through June 30, 2014. PVH's Medicaid cost reports have been audited and settled by the Medicaid fiscal intermediary through June 30, 2013. MCR's Medicaid cost reports have been audited and settled by the Medicaid fiscal intermediary through June 30, 2014. MHS's Medicaid cost reports have been audited through June 30, 2014; however, the Medicaid cost report year 2008 has not yet been settled by the Medicaid fiscal intermediary. YVMC's Medicaid cost reports have been audited and settled by the Medicaid fiscal intermediary through September 30, 2015. PPRH's Medicaid cost reports have been audited and settled by the Medicaid fiscal intermediary through December 31, 2015.

#### ***(c) Other Payors***

The Health System has also entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Health System under these agreements generally includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

#### ***(d) Self-Pay***

The Health System maintains a self-pay discount program in which self-pay patients automatically receive a discount on total charges, which differs by facility. This program reduces uninsured patients' liabilities to a level more equivalent to insured patients. Discounts for this program were \$174,152 and \$134,155 in 2018 and 2017, respectively.

#### ***(e) Disproportionate Share Health System and Charity Care Policy***

In 2010, the State of Colorado modified the CICP Safety Net Provider Program with the Colorado Health Care Affordability Act (the "Act"). The Act authorizes the Department of Health Care Policy and Financing to collect a fee from hospital providers to generate additional federal Medicaid matching funds to increase payments to hospitals and expand coverage under public healthcare programs. For the years ended June 30, 2018 and 2017, the Health System was charged \$164,938 and \$129,620, respectively, in Hospital provider fees and received \$230,053 and \$202,105, respectively, in disproportionate share and Medicaid supplemental revenue as compensation for indigent and underinsured care services provided.

Based on an analysis of the direct and indirect costs specific to the procedures performed, the cost of charity care services provided was \$84,621 and \$59,499 for the years ended June 30, 2018 and 2017, respectively.

## UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

### (4) Net Patient Service Revenue (continued)

#### *(f) Community Benefit*

Based on the application of an adjusted cost to charge ratio to the procedures performed, reduced by actual reimbursement received, UCHHealth provided \$358,913 and \$259,586 in total benefits to the community for uninsured and underinsured patients in 2018 and 2017, respectively.

### (5) Restricted and Unrestricted Pledges

The Health System records pledges as restricted or unrestricted receivables based on the donors' specifications and the Health System's satisfaction of the donors' restriction. All long-term receivables are discounted to reflect the net present value of the pledge and amortized over the life of the pledge. Total unrestricted contributions receivable, net of allowances for uncollectible receivables were \$1,400 at June 30, 2018. Total restricted contributions receivable, net of allowances for uncollectible receivables, were \$1,752 and \$1,558 at June 30, 2018 and 2017, respectively.

The total current portions of unrestricted contributions receivable, net of allowances for uncollectible receivables, were \$1,400 at June 30, 2018. The total current portions of restricted contributions receivable, net of allowances for uncollectible receivables, are \$344 and \$495, and the long-term portions of restricted contributions receivable, net of allowances for uncollectible receivables, which are reported within restricted investments and pledges, donors, in the accompanying balance sheets, are \$1,408 and \$1,064 at June 30, 2018 and 2017, respectively.

### (6) Deposits and Investments

Colorado statutes require that UCHA use eligible public depositories for all cash deposits, as defined by the Public Deposit Protection Act ("PDPA"). Under the PDPA, the depository is required to pledge eligible collateral having a market value at all times equal to at least 102% of the aggregate public deposits held by the depository not insured by the Federal Deposit Insurance Corporation.

Eligible collateral, as defined by the PDPA, primarily includes obligations of, or guarantees by, the U.S. government, the State of Colorado, or any political subdivision thereof, and obligations evidenced by notes secured by first lien mortgages or deeds of trust on real property.

At June 30, 2018 and 2017, UCHHealth's unrestricted cash deposits had a book balance of \$330,353 and \$324,041, respectively, and a bank balance of \$377,286 and \$359,308, respectively. UCHHealth's receivables and investments restricted by donors included cash deposits that had a book and bank balance of \$42,765 and \$43,077 at June 30, 2018 and 2017, respectively. The difference between the bank balance and the book balance is related to outstanding reconciling items. These balances are held in UCHHealth participating entity names, and all accounts, with the exception of the overnight investments account, are covered by federal depository insurance up to the applicable maximum.

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (6) Deposits and Investments (continued)

#### June 30, 2018

|                                              | <u>Deposits</u>   | <u>Investments</u>  | <u>Total</u>        |
|----------------------------------------------|-------------------|---------------------|---------------------|
| Enterprise fund                              |                   |                     |                     |
| Cash and cash equivalents                    | \$ 330,353        | \$ -                | \$ 330,353          |
| Assets limited as to use                     | -                 | 68,491              | 68,491              |
| Investments designated for liquidity support | -                 | 102,315             | 102,315             |
| Long-term investments                        | -                 | 3,487,687           | 3,487,687           |
|                                              | <u>\$ 330,353</u> | <u>\$ 3,658,493</u> | <u>\$ 3,988,846</u> |

#### June 30, 2017

|                                              | <u>Deposits</u>   | <u>Investments</u>  | <u>Total</u>        |
|----------------------------------------------|-------------------|---------------------|---------------------|
| Enterprise fund                              |                   |                     |                     |
| Cash and cash equivalents                    | \$ 324,041        | \$ -                | \$ 324,041          |
| Assets limited as to use                     | -                 | 189,973             | 189,973             |
| Investments designated for liquidity support | -                 | 108,710             | 108,710             |
| Long-term investments                        | -                 | 3,018,297           | 3,018,297           |
|                                              | <u>\$ 324,041</u> | <u>\$ 3,316,980</u> | <u>\$ 3,641,021</u> |

Enterprise fund investments consist of the following:

|                                            | <u>June 30,</u>     |                     |
|--------------------------------------------|---------------------|---------------------|
|                                            | <u>2018</u>         | <u>2017</u>         |
| Restricted by trustee under bond agreement | \$ 23,495           | \$ 145,365          |
| Restricted by donor                        | 44,153              | 43,077              |
| Other restricted                           | 843                 | 1,531               |
| Unrestricted                               | <u>3,590,002</u>    | <u>3,127,007</u>    |
| Total investments                          | <u>\$ 3,658,493</u> | <u>\$ 3,316,980</u> |

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (6) Deposits and Investments (continued)

The following is a summary of enterprise fund investments at fair value:

|                                                              | June 30,            |                     |
|--------------------------------------------------------------|---------------------|---------------------|
|                                                              | 2018                | 2017                |
| Cash equivalents                                             | \$ 59,510           | \$ 37,329           |
| U.S. Treasury bills                                          | 297,471             | 194,299             |
| U.S. government agency, pool, and mortgage-backed securities | 98,450              | 95,443              |
| Asset-backed securities                                      | 50,526              | 49,382              |
| Mutual bond funds                                            | 732,411             | 467,631             |
| Treasury inflation protected securities ("TIPS")             | 185,571             | 151,560             |
| Corporate bonds                                              | 197,548             | 298,894             |
| Equity securities                                            | 2,043,125           | 2,019,609           |
| Interest and dividends receivable                            | 5,955               | 5,094               |
| Miscellaneous investment payable                             | (12,074)            | (2,261)             |
| Total investments                                            | <u>\$ 3,658,493</u> | <u>\$ 3,316,980</u> |

The following is a summary of pension trust fund investments at fair value:

|                                                              | June 30,          |                   |
|--------------------------------------------------------------|-------------------|-------------------|
|                                                              | 2018              | 2017              |
| Cash equivalents                                             | \$ 5,003          | \$ 9,172          |
| U.S. Treasury bills                                          | 47,779            | 33,405            |
| U.S. government agency, pool, and mortgage-backed securities | 10,650            | 13,811            |
| Asset-backed securities                                      | 1,774             | 1,448             |
| TIPS                                                         | 24,871            | 20,190            |
| Corporate bonds                                              | 8,568             | 11,049            |
| Alternative investments                                      | 124,283           | 107,537           |
| Private real estate                                          | 38,532            | 29,299            |
| Mutual bond funds                                            | 94,287            | 100,196           |
| Other mutual funds                                           | 466,467           | 385,971           |
| Interest and dividends receivable                            | 370               | 292               |
| Miscellaneous investment payable                             | (39)              | (2,268)           |
| Total investments                                            | <u>\$ 822,545</u> | <u>\$ 710,102</u> |

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (6) Deposits and Investments (continued)

### (a) Credit Risk

UCHealth's investment policy statements for the enterprise and pension trust funds apply the prudent man rule. Investment responsibilities shall be undertaken "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use."

UCHealth's enterprise and pension trust fund investments in U.S. agency, pool, and mortgage-backed securities are limited to investments rated AAA or AA. UCHealth's enterprise and pension trust funds' asset-backed securities, corporate bonds, and private placements are limited to securities rated Baa3 or BBB- or higher. Under certain circumstances, UCHealth's equity investment managers are allowed to purchase fixed income securities that are convertible into equities. In these circumstances, the guidelines set forth for the specific equity manager supersede the fixed income quality guidelines. The quality ratings mentioned above are required by at least one major credit rating agency at the time of purchase.

The following is a summary of enterprise fund investments at June 30, 2018 and 2017. The ratings are presented as the lower of Standard & Poor's or Moody's rating using the S&P scale.

|                                                                 | 2018               |                   | 2017               |                   |
|-----------------------------------------------------------------|--------------------|-------------------|--------------------|-------------------|
|                                                                 | 2018<br>Fair Value | Average<br>Rating | 2017<br>Fair Value | Average<br>Rating |
| U.S. government agency, pool,<br>and mortgage-backed securities | \$ 98,450          | AA+               | \$ 95,443          | AA+               |
| Asset-backed securities                                         | \$ 50,526          | AAA               | \$ 49,382          | AA+               |
| Mutual bond funds                                               | \$ 732,411         | BBB               | \$ 467,631         | BBB-              |
| TIPS                                                            | \$ 185,571         | AA+               | \$ 151,560         | AA+               |
| Corporate bonds                                                 |                    |                   |                    |                   |
| Financials                                                      | \$ 67,268          | A-                | \$ 127,465         | A-                |
| Industrials                                                     | 71,029             | BBB+              | 114,945            | A                 |
| Municipal                                                       | 196                | AAA               | 196                | AA+               |
| Municipal taxable                                               | 2,065              | AA-               | 1,939              | AA-               |
| Other corporate bonds                                           | 2,107              | AA-               | 2,346              | AAA               |
| Other global corporate bonds                                    | 33,306             | A                 | 35,877             | A                 |
| Private placements                                              | 21,577             | A-                | 16,126             | A-                |
| Total corporate bonds                                           | \$ 197,548         |                   | \$ 298,894         |                   |

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (6) Deposits and Investments (continued)

#### (a) Credit Risk (continued)

The following is a summary of pension trust fund investments at June 30, 2018 and 2017, with average credit ratings based on the lower of Standard & Poor's or Moody's rating using the S&P scale:

|                                                                 | 2018               |                   | 2017               |                   |
|-----------------------------------------------------------------|--------------------|-------------------|--------------------|-------------------|
|                                                                 | 2018<br>Fair Value | Average<br>Rating | 2017<br>Fair Value | Average<br>Rating |
| U.S. government agency, pool,<br>and mortgage-backed securities | \$ 10,650          | AAA               | \$ 13,811          | AA+               |
| Asset-backed securities                                         | \$ 1,774           | AAA               | \$ 1,448           | AAA               |
| Mutual bond funds                                               | \$ 94,287          | BBB               | \$ 100,196         | BBB-              |
| TIPS                                                            | \$ 24,871          | AAA               | \$ 20,190          | AAA               |
| Corporate bonds                                                 |                    |                   |                    |                   |
| Private placements                                              | \$ 1,740           | A+                | \$ 1,598           | AA-               |
| Other                                                           | 6,828              | A-                | 9,451              | A-                |
| Total corporate bonds                                           | \$ 8,568           |                   | \$ 11,049          |                   |

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (6) Deposits and Investments (continued)

#### (b) Interest Rate Risk

UCHealth's enterprise and pension trust fund investment policy manages its exposure to fair value losses arising from rising interest rates by investment manager-specific guidelines that benchmark and limit the duration of its investment portfolio.

As of June 30, 2018 and 2017, the enterprise fund held the following investments. Modified duration is in years.

|                                                                 | 2018               |                      | 2017               |                      |
|-----------------------------------------------------------------|--------------------|----------------------|--------------------|----------------------|
|                                                                 | 2018<br>Fair Value | Modified<br>Duration | 2017<br>Fair Value | Modified<br>Duration |
| U.S. Treasury bills                                             | \$ 297,471         | 5.08                 | \$ 194,299         | 5.55                 |
| U.S. government agency, pool,<br>and mortgage-backed securities | \$ 98,450          | 4.26                 | \$ 95,443          | 3.95                 |
| Asset-backed securities                                         | \$ 50,526          | 5.10                 | \$ 49,382          | 4.42                 |
| Mutual bond funds                                               | \$ 732,411         | 4.23                 | \$ 467,631         | 4.32                 |
| TIPS                                                            | \$ 185,571         | 5.63                 | \$ 151,560         | 7.58                 |
| Corporate bonds                                                 |                    |                      |                    |                      |
| Financials                                                      | \$ 67,268          | 2.26                 | \$ 127,465         | 1.43                 |
| Industrials                                                     | 71,029             | 3.24                 | 114,945            | 1.94                 |
| Municipal                                                       | 196                | 0.02                 | 196                | 0.10                 |
| Municipal taxable                                               | 2,065              | 6.91                 | 1,939              | 9.85                 |
| Other corporate bonds                                           | 2,107              | 1.70                 | 2,346              | 1.99                 |
| Other global corporate bonds                                    | 33,306             | 2.40                 | 35,877             | 2.18                 |
| Private placements                                              | 21,577             | 2.52                 | 16,126             | 2.13                 |
| Total corporate bonds                                           | \$ 197,548         |                      | \$ 298,894         |                      |

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (6) Deposits and Investments (continued)

### (b) Interest Rate Risk (continued)

As of June 30, 2018 and 2017, the pension trust fund held the following investments. Modified duration is in years.

|                                                                 | 2018               |                      | 2017               |                      |
|-----------------------------------------------------------------|--------------------|----------------------|--------------------|----------------------|
|                                                                 | 2018<br>Fair Value | Modified<br>Duration | 2017<br>Fair Value | Modified<br>Duration |
| U.S. Treasury bills                                             | \$ 47,779          | 7.44                 | \$ 33,405          | 7.18                 |
| U.S. government agency, pool,<br>and mortgage-backed securities | \$ 10,650          | 4.33                 | \$ 13,811          | 4.09                 |
| Asset-backed securities                                         | \$ 1,774           | 3.44                 | \$ 1,448           | 4.38                 |
| Mutual bond funds                                               | \$ 94,287          | 5.68                 | \$ 100,196         | 6.05                 |
| TIPS                                                            | \$ 24,871          | 5.01                 | \$ 20,190          | 7.70                 |
| Corporate bonds                                                 |                    |                      |                    |                      |
| Private placements                                              | \$ 1,740           | 2.05                 | \$ 1,598           | 1.53                 |
| Other                                                           | 6,828              | 2.55                 | 9,451              | 2.67                 |
| Total corporate bonds                                           | \$ 8,568           |                      | \$ 11,049          |                      |

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (6) Deposits and Investments (continued)

#### (c) Foreign Currency Risk

UCHealth's enterprise and pension trust fund investment policies manage exposure to foreign currency risk by limiting the allocation percentage of international mutual funds to 5%-15% of the total fair value for the enterprise fund and 16%-28% of the total fair value for the pension trust fund. All of UCHealth's investments exposed to foreign currency risk are held in international mutual funds. UCHealth's enterprise and pension trust fund investments are exposed to foreign currency risk as illustrated in the following table as of June 30, 2018 and 2017.

| Currency                      | Enterprise Fund Fair Value |                   | Pension Trust Fund Fair Value |                   |
|-------------------------------|----------------------------|-------------------|-------------------------------|-------------------|
|                               | 2018                       | 2017              | 2018                          | 2017              |
| Australian Dollar             | \$ 17,476                  | \$ 9,609          | \$ 5,380                      | \$ 4,027          |
| Brazilian Real                | 12,558                     | 7,018             | 3,320                         | 2,676             |
| Canadian Dollar               | 20,536                     | 15,327            | 8,407                         | 6,208             |
| Chilean Peso                  | 523                        | 436               | 188                           | 169               |
| Chinese Yuan Reminbi          | 15,023                     | -                 | 3,891                         | -                 |
| Colombian Peso                | 202                        | 1,627             | 81                            | 253               |
| Czech Koruna                  | 851                        | 940               | 349                           | 410               |
| Danish Krone                  | 5,232                      | 3,299             | 2,472                         | 2,055             |
| Egyptian Pound                | 84                         | 49                | 20                            | 19                |
| Euro                          | 81,090                     | 121,890           | 33,232                        | 34,818            |
| Hong Kong Dollar              | 27,507                     | 34,801            | 14,170                        | 14,156            |
| Hungarian Forint              | 394                        | 1,168             | 157                           | 511               |
| Indian Rupee                  | 10,071                     | 11,823            | 4,324                         | 7,148             |
| Indonesian Rupiah             | 2,764                      | 2,632             | 1,134                         | 1,158             |
| Israel New Shekel             | 716                        | 671               | 308                           | 260               |
| Japanese Yen                  | 68,903                     | 70,526            | 29,922                        | 27,957            |
| Kenyan Shilling               | 767                        | 404               | 325                           | 187               |
| Malaysian Ringgit             | 2,052                      | 927               | 390                           | 356               |
| Mexican Peso                  | 5,753                      | 2,917             | 1,230                         | 1,045             |
| New Zealand Dollar            | (1,690)                    | 197               | (648)                         | 75                |
| Norwegian Krone               | 6,337                      | 3,384             | 1,088                         | 427               |
| Pakistani Rupee               | 57                         | 48                | 13                            | 19                |
| Philippine Peso               | 604                        | 750               | 260                           | 434               |
| Polish Zloty                  | 741                        | 1,240             | 269                           | 527               |
| Qatari Riyal                  | 394                        | 256               | 141                           | 100               |
| Russian Ruble                 | 7,114                      | 2,556             | 1,377                         | 559               |
| Saudi Riyal                   | 1,506                      | -                 | 596                           | -                 |
| Singapore Dollar              | 1,445                      | 5,103             | 1,418                         | 615               |
| South African Rand            | 8,557                      | 6,491             | 2,963                         | 2,655             |
| South Korean Won              | 18,757                     | 24,248            | 7,271                         | 8,428             |
| Swedish Krona                 | 4,101                      | 9,474             | 1,868                         | 3,425             |
| Swiss Franc                   | 20,670                     | 20,026            | 9,210                         | 5,969             |
| Taiwan New Dollar             | 16,222                     | 14,868            | 7,157                         | 5,987             |
| Thailand Baht                 | 2,814                      | 3,430             | 1,452                         | 1,214             |
| Turkish Lira                  | 2,520                      | 3,780             | 1,240                         | 1,522             |
| United Arab Emirates Dirham   | 737                        | 830               | 282                           | 363               |
| United Kingdom Pound Sterling | 50,678                     | 49,461            | 20,783                        | 17,366            |
|                               | <u>\$ 414,066</u>          | <u>\$ 432,206</u> | <u>\$ 166,040</u>             | <u>\$ 153,098</u> |

## UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

### (6) Deposits and Investments (continued)

#### (d) Concentration of Credit Risk

UCHealth's enterprise and pension trust fund investment policies state that the equity and fixed income portfolio should be well diversified to avoid undue exposure to any single economic sector, industry, or individual security. UCHealth has evaluated all investments at June 30, 2018 and confirmed that no more than 5% of total investments are held in any one issuer.

Additionally, UCHealth's enterprise and pension trust fund investment policies state that, within each investment manager, no more than 10% of the equity or fixed income portfolio based on market value should be invested in the securities of any one issuer other than fixed income pools of investments, such as U.S. governments or U.S. government agencies. Except for U.S. Treasuries, no more than 10% of the fixed income portfolio, based on market value, shall be invested in securities of any one issuer at the time of purchase. At June 30, 2018, the fixed income and equity investment managers were in compliance with the stated diversification policy.

### (7) Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes

UCHealth uses interest rate swap agreements to manage interest costs and risks associated with changing interest rates. Interest rate swaps necessarily involve counterparty credit risk. UCHealth seeks to control this risk by entering into transactions with high quality counterparties and through exposure monitoring. Interest rate swaps are used to manage the interest rate exposure of certain variable rate bonds issuances. The counterparties to the interest rate swap contracts are major financial institutions that are rated Aa3 and A2 by Moody's. The estimated fair value of interest rate swaps, which is the gross unrealized market gain or loss, is based on quotes obtained from the counterparties. UCHealth's credit risk on the swaps is limited to any positive fair value of the financial instruments.

During the years ended June 30, 2018 and 2017, UCHealth was party to four swap agreements as follows:

- *A floating-to-fixed swap agreement having an original notional value of \$71,235 and current notional amount of \$62,245, reducing on the dates and the amounts set forth in the Series 2013C bond offering documents describing principal payments.* This agreement was entered into in November 2006 and is scheduled to terminate in November 2031. In this agreement, on the first Wednesday of each calendar month, UCHA pays a fixed rate of 3.5% and receives the sum of 61.8% of USD-LIBOR-BMA plus 0.31%. The objective of this agreement is generally to convert UCHA's floating rate obligations with respect to the Series 2013C Revenue Bonds to fixed rate obligations. At June 30, 2018 and 2017, this swap had an approximate fair value of \$(7,879) and \$(11,129), respectively.
- *A floating-to-fixed swap agreement having an original notional value of \$100,160 and a current notional value of \$86,630, reducing on the dates and amounts set forth in the Series 2013A bond offering documents describing principal payments.* This agreement was entered into in October 2004 and is scheduled to terminate in November 2033. Under the terms of this agreement, on the first Wednesday of each calendar month, UCHA pays a fixed rate of 3.631% and receives the sum of 62.2% of USD-LIBOR-BBA plus 0.30%. The objective of this agreement is generally to convert UCHA's floating rate obligations with respect to the Series 2013A Revenue Bonds to fixed rate obligations. At June 30, 2018 and 2017 the floating-to-fixed rate swap had an approximate fair value of \$(13,377) and \$(18,254), respectively.

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (7) Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes (continued)

- In December 2016, UCHealth entered a forward-starting floating-to-fixed interest rate swap to coincide with a planned refunding of Series 2005 bonds. It is anticipated that the forward swap will hedge variable rate bonds issued in 2018 to refund the fixed rate Series 2005 bonds ranging from 5.00% to 5.25% creating synthetic fixed rate debt. The swap agreement has an initial notional amount of \$198,805 and a fixed payor rate of 1.81% and UCHealth will receive 67% of one-month LIBOR for the entire swap term, which expires March 2040. Settlements are to be made monthly, starting in September 2018. At June 30, 2018 and 2017, this swap had an approximate fair value of \$2,690 and \$(3,990), respectively.
- In February 2017, concurrent with the issuance of the UCHA Series 2017A Bonds, UCHealth entered into a total return, fixed-to-floating swap agreement having a notional amount of \$152,075. Under the terms of the swap agreement, UCHealth receives an amount equal to the coupon of the bonds (4.625%) and makes payments based on the Securities Industry and Financial Markets Association ("SIFMA") Index plus 40 basis points. UCHealth settles with the counterparty semi-annually each May and November. The swap agreement carries a 10-year term. At June 30, 2018 and 2017, this swap had an approximate fair value of \$1,424 and \$2,632, respectively.

In fiscal year 2018, the swaps produced an annual net cash inflow of approximately \$1,297. In fiscal year 2017, the swaps produced an annual net cash outflow of approximately \$3,135. Cash flows associated with the swaps are treated as interest expense. According to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, none of UCHA's swap agreements qualify as effective cash flow hedging derivative instruments. Swap agreements tied directly to a bond issuance are reported as fair value of derivative instruments on the balance sheets and changes in fair value are reported as unrealized gain (loss) on derivative investments on the statements of revenue, expenses, and changes in net position.

### (8) Fair Value

#### (a) Fair Value Hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. As a basis for considering market participant assumptions in fair value measurements, UCHealth utilizes the U.S. GAAP fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The inputs used to measure fair value are classified into the following fair value hierarchy:

*Level 1:* Quoted market prices in active markets for identical assets or liabilities.

*Level 2:* Observable market-based inputs or unobservable inputs that are corroborated by market data.

*Level 3:* Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting UCHealth's own assumptions.

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (8) Fair Value (continued)

### (a) Fair Value Hierarchy (continued)

As of June 30, 2018 and 2017, the enterprise fund held the following investments, by level, within the fair value hierarchy.

| June 30, 2018                                                      |                     |                     |                     |                 |
|--------------------------------------------------------------------|---------------------|---------------------|---------------------|-----------------|
|                                                                    | Total               | Level 1             | Level 2             | Level 3         |
| Investments by fair value level                                    |                     |                     |                     |                 |
| U.S. Treasury bills                                                | \$ 297,471          | \$ 297,471          | \$ -                | \$ -            |
| U.S. government agency, pool,<br>and mortgage-backed<br>securities | 98,450              | -                   | 98,450              | -               |
| Asset-backed securities                                            | 50,526              | -                   | 49,068              | 1,458           |
| Mutual bond funds                                                  | 732,411             | 213,050             | 519,361             | -               |
| TIPS                                                               | 185,571             | 56,384              | 129,187             | -               |
| Corporate bonds                                                    | 197,548             | -                   | 197,548             | -               |
| Equity securities                                                  | 2,043,125           | 1,628,368           | 412,463             | 2,294           |
| Total investments by fair value<br>level                           | <u>\$ 3,605,102</u> | <u>\$ 2,195,273</u> | <u>\$ 1,406,077</u> | <u>\$ 3,752</u> |
| Derivative instruments                                             |                     |                     |                     |                 |
| Interest rate swaps                                                | <u>\$ (17,142)</u>  | <u>\$ -</u>         | <u>\$ (17,142)</u>  | <u>\$ -</u>     |
| June 30, 2017                                                      |                     |                     |                     |                 |
|                                                                    | Total               | Level 1             | Level 2             | Level 3         |
| Investments by fair value level                                    |                     |                     |                     |                 |
| U.S. Treasury bills                                                | \$ 194,299          | \$ 194,299          | \$ -                | \$ -            |
| U.S. government agency, pool,<br>and mortgage-backed<br>securities | 95,443              | -                   | 95,443              | -               |
| Asset-backed securities                                            | 49,382              | -                   | 43,281              | 6,101           |
| Mutual bond funds                                                  | 467,631             | 324,787             | 142,844             | -               |
| TIPS                                                               | 151,560             | 261                 | 151,299             | -               |
| Corporate bonds                                                    | 298,894             | -                   | 298,615             | 279             |
| Equity securities                                                  | 2,019,609           | 1,473,783           | 544,196             | 1,630           |
| Total investments by fair value<br>level                           | <u>\$ 3,276,818</u> | <u>\$ 1,993,130</u> | <u>\$ 1,275,678</u> | <u>\$ 8,010</u> |
| Derivative instruments                                             |                     |                     |                     |                 |
| Interest rate swaps                                                | <u>\$ (30,741)</u>  | <u>\$ -</u>         | <u>\$ (30,741)</u>  | <u>\$ -</u>     |

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (8) Fair Value (continued)

#### (a) Fair Value Hierarchy (continued)

As of June 30, 2018 and 2017, the pension trust fund held the following investments, by level, within the fair value hierarchy.

|                                                                 | June 30, 2018     |                   |                   |                   |
|-----------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                                                 | Total             | Level 1           | Level 2           | Level 3           |
| U.S. Treasury bills                                             | \$ 47,779         | \$ 47,779         | \$ -              | \$ -              |
| U.S. government agency, pool,<br>and mortgage-backed securities | 10,650            | -                 | 10,650            | -                 |
| Asset-backed securities                                         | 1,774             | -                 | 1,640             | 134               |
| TIPS                                                            | 24,871            | -                 | 24,871            | -                 |
| Corporate bonds                                                 | 8,568             | -                 | 8,568             | -                 |
| Alternative investments                                         | 124,283           | 24,381            | 27,554            | 72,348            |
| Private real estate                                             | 38,532            | -                 | -                 | 38,532            |
| Mutual bond funds                                               | 94,287            | 24,816            | 69,471            | -                 |
| Other mutual funds                                              | 466,467           | 295,090           | 171,377           | -                 |
| Total investments                                               | <u>\$ 817,211</u> | <u>\$ 392,066</u> | <u>\$ 314,131</u> | <u>\$ 111,014</u> |

  

|                                                                 | June 30, 2017     |                   |                   |                  |
|-----------------------------------------------------------------|-------------------|-------------------|-------------------|------------------|
|                                                                 | Total             | Level 1           | Level 2           | Level 3          |
| U.S. Treasury bills                                             | \$ 33,405         | \$ 33,405         | \$ -              | \$ -             |
| U.S. government agency, pool,<br>and mortgage-backed securities | 13,811            | -                 | 13,811            | -                |
| Asset-backed securities                                         | 1,448             | -                 | 1,271             | 177              |
| TIPS                                                            | 20,190            | -                 | 20,190            | -                |
| Corporate bonds                                                 | 11,049            | -                 | 10,958            | 91               |
| Alternative investments                                         | 107,537           | 28,286            | 20,671            | 58,580           |
| Private real estate                                             | 29,299            | -                 | -                 | 29,299           |
| Mutual bond funds                                               | 100,196           | 40,787            | 59,409            | -                |
| Other mutual funds                                              | 385,971           | 262,450           | 123,521           | -                |
| Total investments                                               | <u>\$ 702,906</u> | <u>\$ 364,928</u> | <u>\$ 249,831</u> | <u>\$ 88,147</u> |

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (8) Fair Value (continued)

### (a) Fair Value Hierarchy (continued)

U.S. Treasury bills, TIPS, equity securities, alternative investments, and mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. U.S. government debt securities, asset-backed securities, TIPS, corporate bonds, alternative investments, equity securities, and mutual fund securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Asset-backed securities classified in Level 3 are valued using discounted cash flow techniques. Private real estate investments classified in Level 3 of the fair value hierarchy are valued using the income approach based on a discounted cash flow model, with reliance on other metrics used in the marketplace, including the analysis of comparable sales and relationship to replacement cost. Alternative investments, equity securities, and other mutual funds classified in Level 3 of the fair value hierarchy are valued by developing a range of values using multiple methodologies deemed relevant by market participants, including discounted cash flow models, market multiple models, and recent transaction multiples. Swap agreements classified in Level 2 of the fair value hierarchy are valued using interest rate and forward yield curve inputs.

The table below reconciles the total fair value disclosures above to the total fair value of enterprise fund and pension trust fund investments as disclosed in Note 6.

|                                       | June 30,            |                     |
|---------------------------------------|---------------------|---------------------|
|                                       | 2018                | 2017                |
| Enterprise fund investments           |                     |                     |
| Total investments by fair value level | \$ 3,605,102        | \$ 3,276,818        |
| Cash equivalents                      | 59,510              | 37,329              |
| Interest and dividends receivable     | 5,955               | 5,094               |
| Miscellaneous investment payable      | <u>(12,074)</u>     | <u>(2,261)</u>      |
| Total enterprise fund investments     | <u>\$ 3,658,493</u> | <u>\$ 3,316,980</u> |
| Pension trust fund investments        |                     |                     |
| Total investments by fair value level | \$ 817,211          | \$ 702,906          |
| Cash equivalents                      | 5,003               | 9,172               |
| Interest and dividends receivable     | 370                 | 292                 |
| Miscellaneous investment payable      | <u>(39)</u>         | <u>(2,268)</u>      |
| Total pension trust fund investments  | <u>\$ 822,545</u>   | <u>\$ 710,102</u>   |

## UNIVERSITY OF COLORADO HEALTH

### Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

#### **(9) Other Investments**

UCHealth recognizes its interest in the net assets and operations of joint ventures in which UCHealth and its component units have an ownership interest and ongoing financial interests or ongoing financial responsibilities. At June 30, 2018 and 2017, equity interests in joint ventures held by UCHealth and its component units ranged from 5% to 51% and totaled \$32,360 and \$80,435, respectively.

Lakota Lake, LLC ("Lakota Lake") has a 50% equity interest in Gateway Medical Services, LLC ("Gateway") totaling \$6,365 and \$6,720 at June 30, 2018 and 2017, respectively. Lakota Lake's share of Gateway's net income was \$7,792 and \$7,908 for the years ended June 30, 2018 and 2017, respectively. Gateway's financial statements are separately audited. Lakota Lake received distributions from Gateway of \$8,147 and \$7,589 during the years ended June 30, 2018 and 2017, respectively.

At June 30, 2017, UCHealth has a 50.1% equity interest in UCHealth Partners totaling \$34,755. UCHealth's share of UCHealth Partners' net loss was \$0 and \$3,903 for the years ended June 30, 2018 and 2017, respectively. UCHealth made contributions to UCHealth Partners of \$16,055 during the year ended June 30, 2017. Effective December 2017, UCHealth purchased the remaining 49.9% equity interest in UCHealth Partners.

UCHealth has a 16.7% and 20% equity interest in Acclara Solutions, LLC ("Acclara") (formerly PAS Solutions Group, LLC) at June 30, 2018 and 2017, respectively, totaling \$0 and \$7,610 at June 30, 2018 and 2017, respectively. UCHealth's share of Acclara's net income was \$265 and \$222 for the years ended June 30, 2018 and 2017, respectively. During the year ended June 30, 2018, Acclara executed a financing arrangement that resulted in each of its members, including UCHealth, receiving a return of their prior contributions to the entity, while retaining their equity interests. UCHealth received \$10,347 from this transaction. Acclara's financial statements are separately audited.

UCHealth has a 12.1% and 21.1% equity interest in LeanTaaS, Inc. ("LeanTaaS") at June 30, 2018 and 2017, respectively, totaling \$1,639 and \$10,543 at June 30, 2018 and 2017, respectively. UCHealth's share of LeanTaaS' net loss was \$2,091 and \$333 for the years ended June 30, 2018 and 2017, respectively. LeanTaaS' financial statements are separately audited. UCHealth made contributions to LeanTaaS of \$875 during the year ended June 30, 2017. UCHealth sold a portion of its interest in LeanTaaS for cash consideration of \$4,422 during the year ended June 30, 2018. LeanTaaS spun off a portion of its equity interests into a separate entity, CLARA Analytics' ("CLARA") during the year ended June 30, 2018. \$2,391 of UCHealth's interest in LeanTaaS was spun off to CLARA as a result of that transaction. UCHealth's \$2,391 interest in CLARA at June 30, 2018 is accounted for under the cost method.

UCHealth has a 20% equity interest in Brookhaven Medical Properties, LLC ("Brookhaven") totaling \$11,766 and \$8,278 at June 30, 2018 and 2017, respectively. UCHealth's share of Brookhaven net income was \$0 and \$0 for the years ended June 30, 2018 and 2017, respectively. Brookhaven's financial statements are separately audited. UCHealth made contributions to Brookhaven of \$3,488 and \$8,278 during the years ended June 30, 2018 and 2017, respectively.

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (9) Other Investments (continued)

UCHealth and its component units have equity ownership interests ranging from 5% to 50% in other joint ventures totaling \$12,590 and \$12,529 for the years ended June 30, 2018 and 2017, respectively. UCHealth and its component units' share of the other joint ventures' net income was \$4,427 and \$4,868 for the years ended June 30, 2018 and 2017, respectively. UCHealth and its component units received \$6,621 and \$4,746 in distributions from these other joint ventures during the years ended June 30, 2018 and 2017, respectively. PVHS recorded a write-down of \$767 for one of these other joint ventures during the year ended June 30, 2017. UCHealth and its component units made contributions of \$2,255 to these other joint ventures during the year ended June 30, 2018.

During 2017, UCHealth invested \$7,500 in SmartChoice MRI, LLC ("SmartChoice"), which is accounted for under the cost method. At June 30, 2018 and 2017, UCHealth's total interest in SmartChoice was \$7,500, respectively. During 2017, UCHealth invested \$7,000 in Catapult Health, LLC ("Catapult"), which is accounted for under the cost method. At June 30, 2018 and 2017, UCHealth's total interest in Catapult was \$7,000, respectively.

UCHA has a minority interest in TriWest Healthcare Alliance Corp. ("TriWest") of \$6,000 at June 30, 2018 and 2017, which is accounted for under the cost method.

### (10) Capital Assets

Capital assets consist of the following at June 30, 2018, 2017, and 2016:

|                                               | June 30,<br>2016 | Additions  | Transfers | Disposals  | June 30,<br>2017 | Additions  | Transfers | Disposals | June 30,<br>2018 |
|-----------------------------------------------|------------------|------------|-----------|------------|------------------|------------|-----------|-----------|------------------|
| Capital assets, not being depreciated         |                  |            |           |            |                  |            |           |           |                  |
| Land                                          | 108,863          | 11,913     | 24        | (30)       | 120,770          | 4,851      | -         | -         | 125,621          |
| Construction in progress                      | 142,139          | 316,171    | (196,707) | (755)      | 260,848          | 477,658    | (296,853) | (3)       | 441,650          |
| Total capital assets, not being depreciated   | 251,002          | 328,084    | (196,683) | (785)      | 381,618          | 482,509    | (296,853) | (3)       | 567,271          |
| Capital assets, being depreciated             |                  |            |           |            |                  |            |           |           |                  |
| Buildings and improvements                    | 1,945,436        | 9,099      | 120,983   | (2,128)    | 2,073,390        | 101,174    | 177,837   | (1,005)   | 2,351,396        |
| Fixed and moveable equipment                  | 958,378          | 26,635     | 75,700    | (38,932)   | 1,021,781        | 103,678    | 119,016   | (28,860)  | 1,215,615        |
| Total capital assets, being depreciated       | 2,903,814        | 35,734     | 196,683   | (41,060)   | 3,095,171        | 204,852    | 296,853   | (29,865)  | 3,567,011        |
| Accumulated depreciation and impairment       |                  |            |           |            |                  |            |           |           |                  |
| Buildings and improvements                    | 704,326          | 71,274     | -         | (19,18)    | 773,682          | 112,544    | 8         | (636)     | 885,598          |
| Fixed and moveable equipment                  | 645,284          | 101,300    | -         | (38,150)   | 708,434          | 148,539    | (8)       | (28,660)  | 828,305          |
| Total accumulated depreciation and impairment | 1,349,610        | 172,574    | -         | (40,068)   | 1,482,116        | 261,083    | -         | (29,296)  | 1,713,903        |
| Total capital assets, net                     | \$ 1,805,206     | \$ 191,244 | \$ -      | \$ (1,777) | \$ 1,994,673     | \$ 426,278 | \$ -      | \$ (572)  | \$ 2,420,379     |

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (11) Contractual Arrangements and Concentrations of Credit Risk

The Health System provides care to patients covered by various third-party payors, such as Medicare, Medicaid, private insurance companies, and health maintenance organizations. Significant concentrations of patient accounts receivable include the following:

|                                 | June 30, |      |
|---------------------------------|----------|------|
|                                 | 2018     | 2017 |
| Medicare                        | 25%      | 23%  |
| Medicaid                        | 18%      | 27%  |
| Managed care                    | 38%      | 33%  |
| Commercial                      | 2%       | 2%   |
| Self-pay and medically indigent | 7%       | 7%   |
| Military and other governmental | 2%       | 2%   |
| Other                           | 8%       | 6%   |

Management does not believe there are significant credit risks associated with the above payors, other than the self-pay and medically indigent categories. Further, management continually monitors and adjusts reserves and allowances associated with these receivables. Patient accounts receivable are reported net of allowances for doubtful accounts, contractual adjustments, and medically indigent allowances.

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (12) Long-Term Debt and Leases

Long-term debt consists of the following:

| Issuing Entity | Description                                                                                                                                                                                                                       | 2018                | 2017                |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Combined       | Capital leases, long term                                                                                                                                                                                                         | \$ 19,236           | \$ 22,726           |
| MHS            | City of Colorado Springs lease, long term, due in installments through September 30, 2042                                                                                                                                         | 95,936              | 98,563              |
| Combined       | Loan payable                                                                                                                                                                                                                      | 3,661               | 3,853               |
| PVHS           | Revenue bonds, Series 2005A, due in four sinking fund payments ending in fiscal year 2031, net of unamortized discount of \$74 and \$80 at June 30, 2018 and 2017, respectively                                                   | 49,926              | 49,920              |
| PVHS           | Revenue bonds, Series 2005B, due in six sinking fund payments ending in fiscal year 2036, net of unamortized discount of \$155 and \$163 at June 30, 2018 and 2017, respectively                                                  | 82,846              | 82,837              |
| PVHS           | Revenue bonds, Series 2005C, due in five sinking fund payments ending in fiscal year 2040, net of unamortized discount of \$510 and \$533 at June 30, 2018 and 2017, respectively                                                 | 81,490              | 81,467              |
| UCHA           | Revenue bonds series 2009A, due in increasing annual installments through fiscal year 2030, net of unamortized bond discount of \$96 and \$110 at June 30, 2018 and 2017, respectively                                            | 37,704              | 39,610              |
| UCHA           | Revenue Bonds, Series 2011B, due in installments through fiscal year 2030                                                                                                                                                         | 97,430              | 98,515              |
| UCHA           | Revenue Bonds, Series 2011C, due in installments through fiscal year 2023                                                                                                                                                         | 38,170              | 44,705              |
| UCHA           | Revenue Bonds, Series 2012A, due in installments through fiscal year 2043, inclusive of unamortized premium of \$16,593 and \$17,502, and net of unamortized discounts of \$687 and \$725 at June 30, 2018 and 2017, respectively | 258,276             | 261,617             |
| UCHA           | Revenue Bonds, Series 2012B, due in installments through fiscal year 2047                                                                                                                                                         | 50,000              | 50,000              |
| UCHA           | Revenue Bonds, Series 2012C, due in installments through fiscal year 2046                                                                                                                                                         | 87,510              | 87,510              |
| UCHA           | Revenue Bonds, Series 2013A, due in installments through fiscal year 2034                                                                                                                                                         | 86,630              | 88,720              |
| UCHA           | Revenue Bonds, Series 2013B, due in installments through fiscal year 2025                                                                                                                                                         | 9,080               | 10,140              |
| UCHA           | Revenue Bonds, Series 2013C, due in installments through fiscal year 2032                                                                                                                                                         | 62,245              | 63,825              |
| UCHA           | Revenue Bonds, Series 2015D, due in installments through fiscal year 2042                                                                                                                                                         | 198,640             | 199,100             |
| UCHA           | Revenue Bonds, Series 2017A, due in installments through fiscal year 2047                                                                                                                                                         | 152,075             | 152,075             |
| UCHA           | Revenue Bonds, Series 2017B-1, due in installments through fiscal year 2040                                                                                                                                                       | 57,685              | 57,685              |
| UCHA           | Revenue Bonds, Series 2017B-2, due in installments through fiscal year 2025                                                                                                                                                       | 51,025              | 57,125              |
| UCHA           | Revenue Bonds, Series 2017C, due in installments through fiscal year 2048 inclusive of unamortized premium of \$16,818 and \$22,991 at June 30, 2018 and 2017, respectively                                                       | 292,908             | 299,081             |
|                | Total long-term debt                                                                                                                                                                                                              | 1,812,473           | 1,849,074           |
|                | Less current portion                                                                                                                                                                                                              | (30,172)            | (29,653)            |
|                | Less long-term debt subject to short-term remarketing arrangements                                                                                                                                                                | (102,315)           | (108,710)           |
|                |                                                                                                                                                                                                                                   | <u>\$ 1,679,986</u> | <u>\$ 1,710,711</u> |

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (12) Long-Term Debt and Leases (continued)

Changes in long-term debt for the year ended June 30, 2018 are as follows:

| Entity       | 2018                           | Date of Issuance | Beginning Balance   | Issuances/ Refundings of Debt | Discount and Deferred Refunding Amortization | Principal Payments | Ending Balance      | Due Within One Year |
|--------------|--------------------------------|------------------|---------------------|-------------------------------|----------------------------------------------|--------------------|---------------------|---------------------|
| Combined MHS | Capital leases                 | Various          | \$ 22,726           | \$ 57                         | \$ -                                         | \$ (3,547)         | \$ 19,236           | \$ 3,212            |
|              | City of Colorado Springs lease | 10/01/12         | 98,563              | -                             | -                                            | (2,627)            | 95,936              | 2,709               |
| Combined     | Loan payable                   |                  | 3,853               | 349                           | -                                            | (541)              | 3,661               | 206                 |
| PVHS         | Series 2005A                   | 03/01/05         | 49,920              | -                             | 6                                            | -                  | 49,926              | -                   |
| PVHS         | Series 2005B                   | 03/01/05         | 82,837              | -                             | 9                                            | -                  | 82,846              | -                   |
| PVHS         | Series 2005C                   | 03/01/05         | 81,467              | -                             | 23                                           | -                  | 81,490              | -                   |
| UCHA         | Series 2009A                   | 08/06/09         | 39,610              | -                             | 14                                           | (1,920)            | 37,704              | 2,120               |
| UCHA         | Series 2011B                   | 11/09/11         | 98,515              | -                             | -                                            | (1,085)            | 97,430              | 1,100               |
| UCHA         | Series 2011C                   | 11/16/11         | 44,705              | -                             | -                                            | (6,535)            | 38,170              | 6,870               |
| UCHA         | Series 2012A                   | 10/01/12         | 261,617             | -                             | (871)                                        | (2,470)            | 258,276             | 2,240               |
| UCHA         | Series 2012B                   | 10/01/12         | 50,000              | -                             | -                                            | -                  | 50,000              | -                   |
| UCHA         | Series 2012C                   | 10/01/12         | 87,510              | -                             | -                                            | -                  | 87,510              | -                   |
| UCHA         | Series 2013A                   | 11/18/13         | 88,720              | -                             | -                                            | (2,090)            | 86,630              | 2,140               |
| UCHA         | Series 2013B                   | 11/18/13         | 10,140              | -                             | -                                            | (1,060)            | 9,080               | 1,110               |
| UCHA         | Series 2013C                   | 11/18/13         | 63,825              | -                             | -                                            | (1,580)            | 62,245              | 1,640               |
| UCHA         | Series 2015D                   | 09/01/15         | 199,100             | -                             | -                                            | (460)              | 198,640             | 430                 |
| UCHA         | Series 2017A                   | 02/16/17         | 152,075             | -                             | -                                            | -                  | 152,075             | -                   |
| UCHA         | Series 2017B-1                 | 02/16/17         | 57,685              | -                             | -                                            | -                  | 57,685              | -                   |
| UCHA         | Series 2017B-2                 | 02/16/17         | 57,125              | -                             | -                                            | (6,100)            | 51,025              | 6,395               |
| UCHA         | Series 2017C                   | 02/16/17         | 299,081             | -                             | (6,173)                                      | -                  | 292,908             | -                   |
| Total        |                                |                  | <u>\$ 1,849,074</u> | <u>\$ 406</u>                 | <u>\$ (6,992)</u>                            | <u>\$ (30,015)</u> | <u>\$ 1,812,473</u> | <u>\$ 30,172</u>    |

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (12) Long-Term Debt and Leases (continued)

Changes in long-term debt for the year ended June 30, 2017 are as follows:

| Entity   | 2017                              | Date of Issuance | Beginning Balance   | Issuances/<br>Refundings<br>of Debt | Discount<br>and Deferred<br>Refunding<br>Amortization | Principal<br>Payments | Ending<br>Balance   | Due Within<br>One Year |
|----------|-----------------------------------|------------------|---------------------|-------------------------------------|-------------------------------------------------------|-----------------------|---------------------|------------------------|
| Combined | Capital leases                    | Various          | \$ 25,106           | \$ 1,284                            | \$ -                                                  | \$ (3,664)            | \$ 22,726           | \$ 3,534               |
| MHS      | City of Colorado<br>Springs lease | 10/01/12         | 101,111             | -                                   | -                                                     | (2,548)               | 98,563              | 2,627                  |
| Combined | Loan payable                      |                  | 4,032               | -                                   | -                                                     | (179)                 | 3,853               | 192                    |
| PVHS     | Series 2005A                      | 03/01/05         | 49,914              | -                                   | 6                                                     | -                     | 49,920              | -                      |
| PVHS     | Series 2005B                      | 03/01/05         | 82,828              | -                                   | 9                                                     | -                     | 82,837              | -                      |
| PVHS     | Series 2005C                      | 03/01/05         | 81,443              | -                                   | 24                                                    | -                     | 81,467              | -                      |
| UCHA     | Series 2009A                      | 08/06/09         | 42,135              | -                                   | 15                                                    | (2,540)               | 39,610              | 1,920                  |
| UCHA     | Series 2011B                      | 11/09/11         | 99,500              | -                                   | -                                                     | (985)                 | 98,515              | 1,085                  |
| UCHA     | Series 2011C                      | 11/16/11         | 50,915              | -                                   | -                                                     | (6,210)               | 44,705              | 6,535                  |
| UCHA     | Series 2012A                      | 10/01/12         | 269,871             | -                                   | (889)                                                 | (7,365)               | 261,617             | 2,470                  |
| UCHA     | Series 2012B                      | 10/01/12         | 50,000              | -                                   | -                                                     | -                     | 50,000              | -                      |
| UCHA     | Series 2012C                      | 10/01/12         | 87,510              | -                                   | -                                                     | -                     | 87,510              | -                      |
| UCHA     | Series 2013A                      | 11/18/13         | 90,695              | -                                   | -                                                     | (1,975)               | 88,720              | 2,090                  |
| UCHA     | Series 2013B                      | 11/18/13         | 11,135              | -                                   | -                                                     | (995)                 | 10,140              | 1,060                  |
| UCHA     | Series 2013C                      | 11/18/13         | 65,305              | -                                   | -                                                     | (1,480)               | 63,825              | 1,580                  |
| UCHA     | Series 2015A                      | 02/03/15         | 151,330             | (151,330)                           | -                                                     | -                     | -                   | -                      |
| UCHA     | Series 2015B                      | 02/03/15         | 57,405              | (57,405)                            | -                                                     | -                     | -                   | -                      |
| UCHA     | Series 2015C                      | 02/03/15         | 56,850              | (56,850)                            | -                                                     | -                     | -                   | -                      |
| UCHA     | Series 2015D                      | 09/01/15         | 199,100             | -                                   | -                                                     | -                     | 199,100             | 460                    |
| UCHA     | Series 2017A                      | 02/16/17         | -                   | 152,075                             | -                                                     | -                     | 152,075             | -                      |
| UCHA     | Series 2017B-1                    | 02/16/17         | -                   | 57,685                              | -                                                     | -                     | 57,685              | -                      |
| UCHA     | Series 2017B-2                    | 02/16/17         | -                   | 57,125                              | -                                                     | -                     | 57,125              | 6,100                  |
| UCHA     | Series 2017C                      | 02/16/17         | -                   | 301,378                             | (2,297)                                               | -                     | 299,081             | -                      |
| Total    |                                   |                  | <u>\$ 1,576,185</u> | <u>\$ 303,962</u>                   | <u>\$ (3,132)</u>                                     | <u>\$ (27,941)</u>    | <u>\$ 1,849,074</u> | <u>\$ 29,653</u>       |

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (12) Long-Term Debt and Leases (continued)

Annual debt service requirements are as follows:

| <u>Year Ending June 30</u>              | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|-----------------------------------------|---------------------|-------------------|---------------------|
| 2019                                    | \$ 30,172           | \$ 61,953         | \$ 92,125           |
| 2020                                    | 34,532              | 60,138            | 94,670              |
| 2021                                    | 32,133              | 56,208            | 88,341              |
| 2022                                    | 33,476              | 54,167            | 87,643              |
| 2023                                    | 42,460              | 50,342            | 92,802              |
| 2024-2028                               | 232,957             | 229,956           | 462,913             |
| 2029-2033                               | 274,293             | 179,093           | 453,386             |
| 2034-2038                               | 326,414             | 126,554           | 452,968             |
| 2039-2043                               | 368,806             | 68,765            | 437,571             |
| 2044-2048                               | 405,340             | 19,139            | 424,479             |
|                                         | <hr/>               | <hr/>             | <hr/>               |
| Total long-term debt payments           | 1,780,583           | <u>\$ 906,315</u> | <u>\$ 2,686,898</u> |
| Unamortized net premium and discount    | <u>31,890</u>       |                   |                     |
| Total carrying amount of long-term debt | <u>\$ 1,812,473</u> |                   |                     |

UCHealth has entered into capital leases for certain medical equipment and building leases. Monthly lease payments are required for these agreements, which include principal and interest. The maturity dates for these leases range from fiscal year 2020 through fiscal year 2029, and they are secured by the capital assets under the capital lease arrangements. During fiscal year 2018, the Health System entered into new capital lease agreements for equipment totaling approximately \$57 through acquisitions of component units.

At June 30, 2018, total capital assets and related accumulated depreciation under capital lease arrangements were \$32,153 and \$19,675, respectively. At June 30, 2017, total capital assets and related accumulated depreciation under capital lease arrangements were \$34,844 and \$19,383, respectively. Amortization expense under capital lease arrangements is included within depreciation and amortization in the accompanying balance sheets.

Effective October 1, 2012, an Integration and Affiliation Agreement and Health System Operating Lease Agreement with the City of Colorado Springs (the "City") was executed with the purpose of leasing MHS. The original capital lease is for a 40-year term with renewals or extensions anticipated. The lease totaled \$110,000 and will be paid down in monthly payments over the term of the lease. Substantially all capital assets of MHS, with a book value and accumulated depreciation of \$831,429 and \$436,173, respectively, at June 30, 2018 and \$735,981 and \$401,662, respectively, at June 30, 2017, are included in the lease arrangement. Effective May 1, 2017, MHS entered into a Ground Sublease with Children's Hospital Colorado (the "Ground Sublease") for 15% of the original lease payment amount under the Health System Operating Lease Agreement with the City. Future minimum sublease payments under the Ground Sublease are \$15,568 as of June 20, 2018.

## UNIVERSITY OF COLORADO HEALTH

### Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

#### (12) Long-Term Debt and Leases (continued)

In February 2017, UCHA issued Series 2017A Revenue Bonds ("Series 2017A") in the amount of \$152,075 to fully refund UCHA Series 2015A Revenue Bonds. Series 2017A were issued as fixed rate bonds at a rate of 4.625% with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. Concurrently, UCHHealth entered into a total return, fixed-to-floating swap agreement having a notional amount of \$152,075. Under the terms of the swap agreement, UCHHealth receives an amount equal to the coupon of the bonds (4.625%) and makes payments based on the Securities Industry and Financial Markets Association (SIFMA) Index plus 40 basis points. UCHHealth settles with the counterparty semiannually, each May and November. The swap agreement expires in March 2027.

In February 2017, UCHA issued Series 2017B-1 and Series 2017B-2 Revenue Bonds ("Series 2017B") in the amounts of \$57,685 and \$57,125, respectively, to fully refund UCHA Series 2015B and 2015C Revenue Bonds. Series 2017B were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connections with weekly remarketing dates. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2018 and 2017, the principal amount of such bonds has been classified as a current liability in the accompanying balance sheets. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity.

In February 2017, UCHA issued Series 2017C-1 and Series 2017C-2 Revenue Bonds ("Series 2017C") in the amounts of \$141,640 and \$134,450 respectively to finance new projects across UCHHealth. Series 2017C-1 were issued as 3 year put bonds at a premium. Series 2017C-2 were issued as 5 year put bonds at a premium with variable interest rates. Both series pay interest monthly and pay principal according to a mandatory sinking fund redemption schedule.

In September 2015, UCHA issued Series 2015D Revenue Bonds ("Series 2015D") in the amount of \$200,180 to fully refund UCHA Series 2011A Revenue Bonds. Series 2015D were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. Wells Fargo Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds will expire April 2021.

In February 2015, UCHA issued Series 2015A Revenue Bonds ("Series 2015A") in the amount of \$151,330 to finance certain projects at the Anschutz Medical Campus, Poudre Valley Hospital, and Memorial Hospital. Series 2015A were issued as variable rate demand bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connections with certain remarketing dates. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2016, the principal amount of such bonds has been classified as a current liability in the accompanying balance sheets. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity. In February 2017, the Health System refunded Series 2015A in the amount of \$151,330 to pursue interest rate savings.

## UNIVERSITY OF COLORADO HEALTH

### Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

#### (12) Long-Term Debt and Leases (continued)

In February 2015, UCHA issued Series 2015B Revenue Bonds ("Series 2015B") in the amount of \$57,405 to fully refund UCHA Series 2006A Revenue Bonds. Series 2015B were issued as variable rate demand bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connections with certain remarketing dates. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2016, the principal amount of such bonds has been classified as a current liability in the accompanying balance sheets. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity. In February 2017, the Health System refunded Series 2015B in the amount of \$57,405 to pursue interest rate savings.

In February 2015, UCHA issued Series 2015C Revenue Bonds ("Series 2015C") in the amount of \$56,850 to fully refund PVHS Series 2005F Revenue Bonds. Series 2015C were issued as variable rate demand bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connections with certain remarketing dates. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2016, the principal amount of such bonds has been classified as a current liability in the accompanying balance sheets. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintain unrestricted assets as a source of self-liquidity. In February 2017, the Health System refunded Series 2015C in the amount of \$56,850 to pursue interest rate savings.

In November 2013, UCHA issued Series 2013A Revenue Bonds ("Series 2013A") in the amount of \$94,645 to fully refund UCHA Series 2004A Revenue Bonds. Series 2013A were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds will expire April 2021.

In November 2013, UCHA issued Series 2013B Revenue Bonds ("Series 2013B") in the amount of \$13,140 to fully refund UCHA Series 2008A Revenue Bonds. Series 2013B were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds will expire April 2021.

In November 2013, UCHA issued Series 2013C Revenue Bonds ("Series 2013C") in the amount of \$68,185 to fully refund UCHA Series 2008B Revenue Bonds. Series 2013C were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds will expire April 2021.

In October 2012, UCHA issued Series 2012A Revenue Bonds ("Series 2012A") to partially finance the Integration and Affiliation Agreement and Health System Operating Lease Agreement with the City to lease the Memorial Health System. UCHA can issue debt on behalf of obligated group members, as established under the joint operating agreement creating the Health System. Series 2012A were issued in the amount of \$272,090 and are a fixed rate issuance with interest paid semi-annually and principal paid according to a mandatory sinking schedule beginning in fiscal year 2015. Series 2012A were issued with an original issue premium of \$21,975 and an original issue discount of \$910. The average interest rate for Series 2012A is 4.26%.

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (12) Long-Term Debt and Leases (continued)

In October 2012, UCHA issued Series 2012B Revenue Bonds ("Series 2012B") in the amount of \$50,000 to fully refund UCHA Series 2004B Revenue Bonds. Series 2012B were issued as variable rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. Citibank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds had an original five-year term expiring in October 2017, which was renewed for an additional five-year term. The direct purchase bonds will expire in October 2022.

In October 2012, UCHA issued Series 2012C Revenue Bonds ("Series 2012C") in the amount of \$87,510 to fully refund PVHS Series 2005D and 2005E Revenue Bonds. UCHA can issue debt on behalf of obligated group members, as established under the joint operating agreement creating the Health System. Series 2012C were issued as variable rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedules. Wells Fargo Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. UCHA has extended the original direct purchase agreement with Wells Fargo Bank, N.A. on Series 2012C, which will expire April 2021.

In November 2011, UCHA issued Series 2011B Revenue Bonds ("Series 2011B") in the amount of \$103,940 to fully refund UCHA Series 1999A Revenue Bonds. Series 2011B were issued as fixed rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a fixed interest rate of 3.28%. The direct purchase bonds were issued with a ten-year term that will expire November 2021.

In November 2011, UCHA issued Series 2011C Revenue Bonds ("Series 2011C") in the amount of \$72,870 to finance equipment for use and certain other improvements at the Anschutz Medical Campus. Series 2011C were issued as fixed rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. PNC Bank is the holder of the bonds at a current fixed interest rate of 2.31%. The direct purchase bonds were issued with an eleven-year term and will expire as the bonds fully mature in November 2022.

In August 2009, UCHA issued Series 2009A Revenue Bonds ("Series 2009A") in the amount of \$51,795 to fully refund UCHA Series 2006B Revenue Bonds. Series 2009A are a fixed interest rate issuance with interest paid semi-annually and principal paid according to a mandatory sinking schedule beginning in fiscal year 2011. Series 2009A were issued with an original issue discount of \$239. The average interest rate for the Series 2009A is 5.87%.

In March 2005, PVHS issued \$370,000 of Revenue Bonds to finance a portion of the costs of construction and equipping Medical Center of the Rockies and defease a portion of the PVHS Series 1999A Revenue Bonds. These bonds were issued through the Colorado Health Facilities Authority. The 2005 PVHS bonds were refunded in July 2018 (see "Subsequent Events"). This bond issuance included four separate series.

- PVHS Series 2005A Revenue Bonds ("Series 2005A") were issued in the amount of \$50,000 as a fixed rate issuance with interest paid semi-annually and principal paid according to a mandatory sinking schedule beginning in fiscal year 2028. Series 2005A were issued with an original issue discount of \$136 and have an average interest rate of 5.20%.
- PVHS Series 2005B Revenue Bonds ("Series 2005B") were issued in the amount of \$83,000 as a fixed rate issuance with interest paid semi-annually and principal paid according to a mandatory sinking schedule beginning in fiscal year 2031. Series 2005B were issued with an original issue discount of \$247 and have an average interest rate of 5.25%.

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (12) Long-Term Debt and Leases (continued)

- PVHS Series 2005C Revenue Bonds ("Series 2005C") were issued in the amount of \$82,000 as a fixed rate issuance with interest paid semi-annually and principal paid according to a mandatory sinking schedule beginning in fiscal year 2036. Series 2005C were issued with an original issue discount of \$759 and have an average interest rate of 5.25%.

All bonds are secured by a security interest with respect to all gross revenues of the Health System. The UCHA 1997A Master Indenture, as supplemented, and the PVHS amended and restated Master Trust Indenture as of 2005, as supplemented, each require the Health System to maintain certain financial ratios. During 2018 and 2017, the Health System met all of the financial ratio requirements.

Cash paid for interest was \$62,950 and \$51,348 in 2018 and 2017, respectively. Interest received on the unexpended bond funds in 2018 and 2017 was \$2,636 and \$2,212, respectively. Total capitalized interest expense recognized for capital projects was \$3,423 and \$2,474 in 2018 and 2017, respectively.

The fair value of the Health System's long-term debt is based on the most recent trading price as of June 30, 2018. The fair value of the Revenue Bonds at June 30, 2018 and 2017 was approximately \$1,703,675 and \$1,751,381, respectively.

UCHealth leases certain equipment and facilities under non-cancelable operating leases. Future minimum lease payments for equipment and facilities under non-cancelable operating leases as of June 30, 2018 are approximately:

#### Year Ending June 30,

|                           |    |                |
|---------------------------|----|----------------|
| 2019                      | \$ | 47,142         |
| 2020                      |    | 39,866         |
| 2021                      |    | 32,235         |
| 2022                      |    | 29,255         |
| 2023                      |    | 24,789         |
| 2024-2028                 |    | <u>231,340</u> |
| Total minimum obligations | \$ | <u>404,627</u> |

Rental expense, net of rental expense recovery, approximated \$45,937 and \$30,135 in 2018 and 2017 respectively.

### (13) Self-Insurance Trust

UCD sponsors a self-insurance trust, the University of Colorado Self-Insurance and Risk Management Trust (the "Trust"), in which UCHA participates. The Trust was authorized by a Regent resolution dated June 23, 1985, and may be amended, altered, or revoked by UCD, but only if such amendment, alteration, or revocation is consistent with and in furtherance of the purpose of this Trust. The participants in the Trust are the University of Colorado (the "University"), including UCD and its agencies, administrators, faculty, and employees, and other affiliates of the University, including UCHA. As UCHA has transferred risk associated with this insurance into the public-entity risk pool of the Trust, the assets and liabilities of the Trust are not included in the accompanying basic financial statements.

## UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

### **(13) Self-Insurance Trust (continued)**

The Trust provides coverage to its participants up to statutory limitations relating to malpractice claim immunity for government entities. The coverage is \$387 per claimant and \$1,093 per occurrence for claims arising from activities of covered persons and entities within the state of Colorado. The Trust also provides coverage of \$1,500 per occurrence for claims arising outside the state of Colorado. The Trust contracts with a commercial insurance company to provide \$8,000 per occurrence or aggregate per year for claims in which the limits of governmental immunity do not apply.

As of June 30, 2018, the Trust had a fund balance of approximately \$5,105, which is net of approximately \$9,767 in reserves for losses and loss adjustment expenses. At June 30, 2018, plan assets exceed the actuarially determined liability. For 2018 and 2017, UCHA recorded premium and administrative expenses of approximately \$498 and \$1,496, respectively. There were no refunds received during 2018 or 2017.

### **(14) Retirement Plans**

UCHA offers four retirement plans: the University of Colorado Hospital Authority Retirement Plan (the "Basic Pension Plan"), as amended and restated, the University of Colorado Hospital Authority Fixed Contribution Investment Plan (the "Investment Account"), the University of Colorado Hospital Authority Matching Tax Deferred Annuity Plan (the "Matching Account"), and the University of Colorado Hospital Deferred Compensation Savings Plan (the "457b Plan"). The UCHA Board is the fiduciary for the Basic Pension Plan and has the ability to amend this plan. The Investment Account, Matching Account, and 457b Plan are administered by independent companies that have entered into trust agreements with UCHA. The investment companies hold all funds contributed under these plans. The UCHA Board has the authority to establish and amend the benefit provisions of these plans.

#### **(a) Pension Plans**

UCHA participates in two pension plans that cover substantially all of its employees. As of October 1, 1989, UCHA's workforce was given the option of becoming employees of UCHA and participating in the Basic Pension Plan or remaining state employees of Colorado and continuing to participate in the Public Employees' Retirement Association ("PERA").

UCHA maintained a single-employer non-contributory, cash balance pension plan (the "Frozen Plan") for Hospital employees through March 1995. Under this plan, contributions credited to each covered employee's account were based on a percentage of compensation earned by the employee. Vesting under this plan was based on length of service. As of March 31, 1995, a final contribution was credited to the accounts of all covered employees of record on that date and the balances were frozen. Employee accounts continue to accrue interest based on the applicable interest rate as defined in Code Section 417(e)(3)(A)(ii)(II), and covered employees not fully vested in the Frozen Plan continue to earn credit toward vesting under a new plan adopted April 1, 1995. As of April 1, 1995, UCHA amended the Frozen Plan based on its ability to withdraw from the Old Age, Survivors, and Disability Insurance ("OASDI") component of the Federal Insurance Contributions Act ("FICA") program by virtue of its operation under legislatively granted state authority. UCHA and its employees still contribute to and participate in the Medicare component of FICA.

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (14) Retirement Plans (continued)

### (a) Pension Plans (continued)

The Basic Pension Plan is a single-employer, non-contributory, defined benefit plan. Eligibility to receive benefits under this plan for UCHA employees starts on the date of hire. Those employees who were employed by UCHA prior to October 1, 1989, and those who elected to become UCHA employees, are eligible to participate. MHS employees active as of October 1, 2012, and PVHS employees active as of January 4, 2013, or hired thereafter are eligible for participation in the University of Colorado Hospital Authority Retirement Plan on that date. Effective September 1, 2012, participants are vested in their accrued benefit at 20% per every twelve months of service until they are 100% vested after five years. This is a change from the prior vesting schedule for UCHA employees, which required five years of service to become 100% vested.

The annual accrued benefits, paid monthly, of the Basic Pension Plan are calculated at 1.5% times the Average Annual Compensation times years of service (based on hire date). The five most highly compensated calendar years of service after March 26, 1995 are used to calculate the Average Annual Compensation. A small number of UCHA employees are eligible to receive additional benefits based on a combined age and years of credited service equal to or greater than 75 on January 1, 2013 ("Rule of 75"). The Basic Pension Plan offers reduced benefits for early retirement and adjusted benefits for late retirement (after age 65). Most plan participants, except those falling under the Rule of 75, will receive a monthly benefit with no annual cost of living adjustment factor, which is an amendment to the plan, effective for accruals on or after January 1, 2013.

Pension plan assets, which support both this and the Frozen Plan described above, consist of equity securities, fixed income securities, real estate, alternative investments, money market funds, cash, and receivables. Although the Basic Pension Plan is a governmental plan within the meaning of Section 3(32) of the Employee Retirement Income Security Act of 1974 ("ERISA") and is, therefore, exempt from the requirements of Title I of ERISA, the Health System's practice is to contribute amounts at least equal to the minimum funding requirements of ERISA.

The actuarially computed net periodic pension cost for the Basic Pension Plan for 2018 and 2017 was approximately \$87,476 and \$80,312, respectively. Investment gains for 2018 and 2017, including interest, dividends, and realized and unrealized gains, were approximately \$56,395 and \$78,610, respectively. Membership in the Basic Pension Plan consisted of the following at July 1, 2017 and 2016 (dates of the latest actuarial valuations):

|                                                                    | 2017   | 2016   |
|--------------------------------------------------------------------|--------|--------|
| Retirees and beneficiaries receiving benefits                      | 1,219  | 934    |
| Terminated plan members entitled to but not yet receiving benefits | 5,047  | 6,236  |
| Active plan members, includes all participants within the system   | 18,581 | 16,986 |
| Total members                                                      | 24,847 | 24,156 |

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (14) Retirement Plans (continued)

#### (a) Pension Plans (continued)

As a governmental entity, UCHA has flexibility in determining the amount to contribute to the Basic Pension Plan each year. The actuarially determined contribution calculated as part of this report is intended to provide a systematic method for prefunding the liabilities for retirement benefits payable under the Basic Pension Plan. It is calculated in a manner intended to remain relatively stable, as a percentage of valuation compensation, over time. This stability is intended to facilitate the annual budgeting process and to keep the cost of the Basic Pension Plan manageable. The Health System made contributions to the Basic Pension Plan of \$79,213 and \$74,356 in 2018 and 2017, respectively. The actuarially determined contributions were \$79,213 and \$74,356 in 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, the Health System's average contribution rates were 6.64% and 7.02%, respectively, of annual payroll.

The Health System's net pension liability was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of July 1, 2017 and 2016, respectively. The Health System utilized update procedures to roll valuation amounts forward to the respective measurement dates using the calculated service and interest cost, actual contributions, and return on plan assets.

Additional information as of the latest actuarial valuation date follows:

|                                   |                                        |
|-----------------------------------|----------------------------------------|
| Valuation date                    | July 1, 2017                           |
| Actuarial cost method             | Entry Age Normal, Level Percent of Pay |
| Amortization method               | Straight Line                          |
| Asset valuation method            | Fair Value                             |
| Actuarial assumptions             |                                        |
| i) Discount rate*                 | 7.0%                                   |
| ii) Projected salary increases*   | 3.6% to 6.5%                           |
| iii) Cost of living adjustments** | 2.5%                                   |

\* Includes inflation at 2.5%.

\*\* Cost of living adjustments apply only to those participants who fall under the Rule of 75.

Mortality rates for the 2017 valuation were based on the Sex-distinct RP2-2014 mortality tables with base year 2006, without collar or amount adjustments, using the base mortality improvement scale MP-2017 with generational projections.

Mortality rates for the 2016 valuation were based on the Sex-distinct RP-2014 mortality tables with base year 2006, without collar or amount adjustments, using a modified mortality improvement scale MP-2015 with generational projections with ultimate convergence in 2018.

The actuary is required to use assumptions that represent his or her best estimate of future experience under the Basic Pension Plan and are reasonably related to the experience of the Plan. The actuary will monitor the actuarial experience under the Plan in future years in order to judge the continuing appropriateness of these assumptions. The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through July 1, 2012.

# UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

## (14) Retirement Plans (continued)

### (a) Pension Plans (continued)

The long-term expected rate of return on pension plan investments was determined using a variety of industry-accepted practices to determine 10-year estimated ranges of future expected returns for major asset classes. For public equities, a building-block approach incorporating inflation, real earnings growth, dividend yield, and re-pricing was used. For fixed income, current yields and credit spreads were used. For the various alternative asset classes, a combination of historical risk premiums, illiquidity premiums, and style-specific premiums were used. The arithmetic average forecast returns for each asset class are combined at target asset allocation weights to provide a forecasted geometric (50th percentile) expected return for the plan. All figures shown are nominal (i.e., inclusive of inflation):

| <u>Asset Class</u>   | <u>Target Allocation</u> | <u>Arithmetic Expected<br/>Return<br/>(10-Year Average)</u> |
|----------------------|--------------------------|-------------------------------------------------------------|
| Domestic equity      | 20%                      | 5.8                                                         |
| International equity | 21%                      | 10.1                                                        |
| Fixed income         | 26%                      | 3.5                                                         |
| Real estate          | 10%                      | 7.7                                                         |
| Alternative          | 20%                      | 7.1                                                         |
| Commodities          | 3%                       | 5.5                                                         |
|                      | <u>100%</u>              |                                                             |

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (14) Retirement Plans (continued)

#### (a) Pension Plans (continued)

Changes in the net pension liability for the years ended June 30, 2018 and 2017 were as follows.

|                           | Total Pension<br>Liability | Plan Fiduciary<br>Net Position | Net Pension<br>Liability |
|---------------------------|----------------------------|--------------------------------|--------------------------|
|                           | (a)                        | (b)                            | (a) - (b)                |
| Balances at June 30, 2016 | \$ 729,530                 | \$ 578,346                     | \$ 151,184               |
| Changes for the year      |                            |                                |                          |
| Service cost              | 63,156                     | -                              | 63,156                   |
| Interest                  | 50,527                     | -                              | 50,527                   |
| Contributions - employer  | -                          | 74,356                         | (74,356)                 |
| Net investment income     | -                          | 78,610                         | (78,610)                 |
| Changes in experience     | 2,020                      | -                              | 2,020                    |
| Benefit payments          | (19,464)                   | (19,464)                       | -                        |
| Administrative expense    | -                          | (1,746)                        | 1,746                    |
| Net changes               | <u>96,239</u>              | <u>131,756</u>                 | <u>(35,517)</u>          |
| Balances at June 30, 2017 | <u>825,769</u>             | <u>710,102</u>                 | <u>115,667</u>           |
| Changes for the year      |                            |                                |                          |
| Service cost              | 84,811                     | -                              | 84,811                   |
| Interest                  | 56,967                     | -                              | 56,967                   |
| Contributions - employer  | -                          | 79,213                         | (79,213)                 |
| Net investment income     | -                          | 56,395                         | (56,395)                 |
| Changes in experience     | 7,291                      | -                              | 7,291                    |
| Changes in assumptions    | (8,788)                    |                                | (8,788)                  |
| Benefit payments          | (20,914)                   | (20,914)                       | -                        |
| Administrative expense    | -                          | (2,251)                        | 2,251                    |
| Net changes               | <u>119,367</u>             | <u>112,443</u>                 | <u>6,924</u>             |
| Balances at June 30, 2018 | <u>\$ 945,136</u>          | <u>\$ 822,545</u>              | <u>\$ 122,591</u>        |

The pension plan's fiduciary net position as a percentage of the total pension liability was 87.0% and 86.0% as of June 30, 2018 and 2017, respectively.

# UNIVERSITY OF COLORADO HEALTH

## Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

### (14) Retirement Plans (continued)

#### (a) Pension Plans (continued)

The following presents the net pension liability of the Health System, calculated using the discount rate of 7.0%, as well as what the Health System's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

|                       | 1% Decrease<br>6.0% | Current<br>Discount Rate<br>7.0% | 1% Increase<br>8.0% |
|-----------------------|---------------------|----------------------------------|---------------------|
| Net pension liability | \$ 270,008          | \$ 122,591                       | \$ 2,930            |

For the years ended June 30, 2018 and 2017, the Health System recognized pension expense of \$87,476 and \$80,312, respectively. At June 30, 2018 and 2017, the Health System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                                  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|----------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|
| June 30, 2018                                                                    |                                      |                                     |
| Differences between expected and actual experience                               | \$ 23,639                            | \$ 1,710                            |
| Changes in assumptions                                                           | 14,862                               | 6,039                               |
| Net difference between projected and actual earnings on pension plan investments | -                                    | 5,611                               |
| Total                                                                            | <u>\$ 38,501</u>                     | <u>\$ 13,360</u>                    |
| June 30, 2017                                                                    |                                      |                                     |
| Differences between expected and actual experience                               | \$ 9,585                             | \$ 3,060                            |
| Changes in assumptions                                                           | 22,712                               | -                                   |
| Net difference between projected and actual earnings on pension plan investments | -                                    | 2,757                               |
| Total                                                                            | <u>\$ 32,297</u>                     | <u>\$ 5,817</u>                     |

## UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

### (14) Retirement Plans (continued)

#### (a) Pension Plans (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,

|      |    |               |
|------|----|---------------|
| 2019 | \$ | 16,058        |
| 2020 |    | 9,362         |
| 2021 |    | (4,412)       |
| 2022 |    | 1,162         |
| 2023 |    | 2,264         |
| 2024 |    | 707           |
|      | \$ | <u>25,141</u> |

The Health System has made all required contributions to the pension plan for the year ended June 30, 2018.

UCHA's state employees are participants in a defined benefit pension plan of PERA, a cost-sharing multi-employer pension trust. Benefits are based upon length of service and compensation earned by the employee during the highest three years of service. UCHA has made contributions to PERA in accordance with actuarially determined funding amounts. Pension expense related to state employees was approximately \$62 and \$67 for 2018 and 2017, respectively. Required contributions during fiscal years 2018 and 2017 were \$62 and \$67, respectively. UCHA contributed 100% of each year's required contribution. As the Health System's proportionate share of PERA's net pension liability is insignificant, detailed disclosures regarding this plan are not included in this report. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. That report may be obtained online at [www.copera.org](http://www.copera.org); by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203; or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

#### (b) Investment Account

The Investment Account is a qualified, single-employer, defined contribution retirement plan under the provisions of Code Section 401(a). Employees are required to contribute 6.2% of their gross compensation (limited to the OASDI wage base), which is equivalent to what their OASDI contributions would be under FICA participation. Employees are always fully vested in this component of the plan. Total compensation subject to the plans for the years ended June 30, 2018 and 2017, was approximately \$1,400,976 and \$1,166,277, respectively. Total employee contributions made under the provisions of this plan were approximately \$76,135 and \$64,550 for the years ended June 30, 2018 and 2017, respectively. This represents approximately 5.43% of the current year's payroll. In accordance with Code regulations, the Health System is required to provide an additional make-up contribution for certain part-time employees equal to 1.3% of their compensation until they are fully vested in the Basic Pension Plan. Make-up contributions made by UCHHealth were approximately \$805 and \$605 in 2018 and 2017, respectively.

## UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

### **(14) Retirement Plans (continued)**

#### ***(c) Matching Account***

The Matching Account is a single-employer, tax-deferred annuity plan under the provisions of Code Section 403(b). Employees are eligible to contribute a percentage of their gross compensation, tax-deferred up to legal limitations established under the Code. In addition, UCHHealth will match employee contributions 100% on the first 3% of gross compensation contributed. Employees are always vested 100% in their contributions; however, the Health System's matching contributions are subject to a five-year graduated vesting schedule. Certain part-time employees are not eligible for UCHHealth matching contributions. UCHHealth matching contributions for 2018 and 2017 were approximately \$28,712 and \$23,542, respectively.

As of October 1, 2012 Fidelity Investments became the exclusive investment option for employees of UCHA. Fidelity Investments provides a broad array of mutual funds with which to invest all contributions under the Investment Account and Matching Account. Prior to October 1, 2012 UCHA employees had the option to invest with TIAA-CREF and can continue to do so, although this investment company is no longer an option for employees of the Health System. Employee contributions to the Matching Account for 2018 and 2017 approximated \$66,670 and \$56,805, respectively.

#### ***(d) 457b Plan***

The 457b Plan is a single-employer tax-deferred plan under the provisions of Code Section 457. The TIAA-CREF 457b Plan became effective in February 2005, and the Fidelity 457b Plan became effective in January 2011, whereby employees are eligible to contribute a percentage of their gross compensation, tax-deferred, up to legal limitations established under the Code. Only UCHA employees are able to contribute to the TIAA-CREF 457b Plan. Employees are always vested 100% in their contributions, and the Health System does not contribute to this plan. Employees may elect from a broad array of mutual funds with their respective investment companies. Employee contributions to the TIAA-CREF 457b Plan for 2018 and 2017 approximated \$347 and \$313, respectively. Employee contributions to the Fidelity 457b Plan in 2018 and 2017 approximated \$11,966 and \$8,981, respectively.

#### ***(e) Other Post-Employment Benefit Plan***

In addition to the retirement plans mentioned above, UCHA provides a post-retirement medical premium subsidy to employees retiring from UCHA who are covered under the PERA benefit guarantee provision of the State of Colorado legislation creating the Authority. This plan provides a medical premium subsidy of up to \$112 per month for medical plan coverage (pro-rated for less than 20 years of service) and an employer-funded life insurance benefit of \$3,000. The employer-funded life insurance benefit is provided to all employees who retired from UCHA on or before July 1, 2015. The accumulated post-retirement benefit obligation and actuarial accrued liability, which is unfunded, for the medical and life premiums approximated \$3,818 and \$3,473 at June 30, 2018 and 2017, respectively. Total benefit costs related to this plan were \$169 and \$6 for the years ended June 30, 2018 and 2017, respectively. In the calculation of the liability an assumption that 65% of eligible active employees would elect to be covered by the medical premium subsidy plan. The discount rate used to measure the liability was 3.87% and 7.0% at June 30, 2018 and 2017, respectively. UCHHealth adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the year ending June 30, 2018. In conjunction with that adoption, the discount rate assumption changed to a 20-year tax exempt general obligation municipal bond index.

## UNIVERSITY OF COLORADO HEALTH

### Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

#### (15) Significant Transactions Between Component Units

UCHealth entities pool their respective revenues and expenses for a single bottom line. The UCHealth Board approves the operating and capital budgets of each entity throughout the system. Entity-specific boards remain to oversee medical staff and credentialing, quality, joint commission and oversight of other day-to-day operating activities.

The Health System's balance sheets; statements of revenue, expenses, and changes in net position; and statements of cash flows include transactions between the Health System and its component units.

Total current assets of UCHA include a receivable from affiliates that is comprised of amounts due for the Series 2012A proceeds related to the acquisition of MHS of \$2,240 and \$2,470 at June 30, 2018 and 2017, respectively; amounts due for the Series 2017B-2 proceeds related to the refinancing of PVHS Revenue Bonds of \$6,395, and \$6,100, respectively; \$4,360 and \$4,224 related to interest due on intercompany bonds from MHS, PVHS, and Other Entities at June 30, 2018 and 2017, respectively; and \$328,498 and \$147,794 at June 30, 2018 and 2017, respectively, related to transactions between UCHA, the Health System, and other component units. Total current assets of PVHS include \$237,747 and \$111,110 at June 30, 2018 and 2017, respectively related to transactions between PVHS, the Health System, and other component units. Total current assets of MHS include \$14,579 and \$8,630 at June 30, 2018 and 2017, respectively related to transactions between PVHS, the Health System, and other component units.

Total non-current assets of UCHA include a receivable from MHS that is comprised of amounts due for the Series 2012A proceeds related to the acquisition of MHS and bonds issued for the acquisition of capital assets of \$327,077 and \$329,271 at June 30, 2018 and 2017, respectively. Total non-current assets of UCHA include a receivable from PVHS related to bond proceeds for the refinancing of PVHS Revenue Bonds and bonds issued for the acquisition of capital assets of \$189,013 and \$201,967 at June 30, 2018 and 2017, respectively. Total non-current assets of UCHA include a receivable from Other Entities related to bonds issued for the acquisition of capital assets of \$247,750 and \$239,625 at June 30, 2018 and 2017, respectively.

Total current liabilities of MHS at June 30, 2018 and 2017 include \$2,240 and \$2,470, respectively, due to UCHA for the Series 2012A proceeds related to the acquisition of MHS, and \$1,986 and \$1,986, respectively, related to accrued interest on bond proceeds. Total current liabilities of PVHS at June 30, 2018 and 2017 include \$6,395 and \$6,100 due to UCHA for the Series 2017B-2 proceeds related to the refinancing of PVHS Revenue Bonds. Total current liabilities of PVHS at June 30, 2018 and 2017 include a payable to affiliates of \$632 and \$591, respectively, related to accrued interest on bond proceeds. Total current liabilities of Other Entities at June 30, 2018 and 2017 include a payable to affiliates of \$1,742 and \$1,647 related to accrued interest on bond proceeds. Other Entities have a payable to affiliates that is comprised of amounts due to component units of \$562,491 and \$246,753 related to transactions between Other Entities, the Health System and other component units at June 30, 2018 and 2017, respectively. The Health System has a payable to affiliates that is comprised of amounts due to component units of \$18,334 and \$18,537 related to transactions between the Health System and UCHA, PVHS, MHS and Other Entities at June 30, 2018 and 2017, respectively.

## UNIVERSITY OF COLORADO HEALTH

### Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

#### **(15) Significant Transactions Between Component Units (continued)**

Total non-current liabilities of MHS at June 30, 2018 and 2017 include a payable to affiliates of \$327,077 and \$329,271, respectively, which is comprised of amounts due for the Series 2012A proceeds related to the acquisition of MHS and bonds issued for the acquisition of capital assets. Total non-current liabilities of PVHS at June 30, 2018 and 2017 include a payable to affiliates of \$189,013 and \$201,967, respectively, which is comprised of amounts due to UCHA for the refinancing of PVHS Revenue Bonds and bonds issued for the acquisition of capital assets. Total non-current liabilities of Other Entities at June 30, 2018 and 2017 include a payable to affiliates of \$247,750 and \$239,265, which is comprised of amounts due to UCHA for bonds issued for the acquisition of capital assets.

The Health System and its component units effectively pool their investments within the Health System's pooled investment account structure, with each component unit of the Health System reflecting their respective portion of cash and investments on their balance sheets at June 30, 2018 and 2017. PVHS's portion of pooled cash at June 30, 2018 and 2017 was \$124,689 and \$122,023, respectively. PVHS's portion of pooled investments at June 30, 2018 and 2017 was \$1,455,031 and \$1,231,086, respectively. UCHA's portion of pooled cash at June 30, 2018 and 2017 was \$171,421 and \$177,116, respectively. UCHA's portion of pooled investments at June 30, 2018 and 2017 was \$2,000,368 and \$1,786,913, respectively. MHS's portion of pooled cash at June 30, 2018 and 2017 was \$8,140 and \$9,831, respectively. MHS's portion of pooled investments at June 30, 2018 and 2017 was \$94,981 and \$99,187, respectively. Other Entities' portion of pooled cash at June 30, 2018 was \$2,381. Other Entities portion of pooled investments at June 30, 2018 was \$27,769.

#### **(16) Related-Party Transactions**

UCHA is affiliated with the State of Colorado; TriWest; University of Colorado Medicine ("CU Medicine"); Colorado Access; and the University, consisting of UCD, the Trust, and the Adult Clinical Research Center ("CRC").

##### **(a) UCD**

UCD and UCHA have developed an Institutional Master Plan (the "Master Plan") to create a new academic health sciences center over the next 20 to 50 years on the Anschutz Medical Campus. The Master Plan has been approved by the Regents, UCHA, and the Colorado Commission on Higher Education. The Regents and UCHA entered into a ground lease in 1998 for approximately 18.4 acres of the property acquired by the Regents pursuant to the quitclaim conveyance from the United States Department of Education. Subsequent agreements have been executed between these parties to provide additional land to UCHA, which has been used to continue development of the Anschutz Medical Campus. As a result, UCHA has expanded its facilities with an office tower, parking garage, inpatient towers, and additional staff and patient parking structures. As a result of continued growth, UCHA is currently building out shelled space to add 60 additional patient beds and four operating room suites to meet continued strong demand for its inpatient services.

Consistent with the joint planning process reflected in the Master Plan, the Regents and UCHA have agreed in the Fitzsimons Ground Lease that additional agreements will be necessary for development of the Anschutz Medical Campus. The Regents, Children's Hospital Colorado, and UCHA entered into an Amended and Restated Infrastructure Development and Maintenance Agreement effective July 1, 2004, which sets forth how the three parties will plan and construct infrastructure, share the cost of such planning and construction, and share in the related maintenance expenses of the infrastructure.

## UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

### (16) Related Party Transactions (continued)

#### (a) UCD (continued)

Under the operating agreement between the Regents of the University and UCHA dated July 1, 1991, the Regents have entered into contracts with UCHA for the provision of services in support of programs and operations of UCHA, including providing personnel, physical plant maintenance, and other general and administrative services. UCHA paid \$59,100 and \$59,638 for these services, which are recorded in purchased services and other expenses in 2018 and 2017, respectively.

UCHA has also entered into contracts with the Regents for the provision of services to UCD, including clinic services, research projects, infrastructure expense, and other items. Reimbursements of \$1,459 and \$1,843 were recognized in other operating revenue for these services during 2018 and 2017, respectively.

UCHA leases certain employees to CRC at full cost and also provides overhead and ancillary services to CRC. Charges of approximately \$1,801 and \$1,843 were billed to CRC for the cost of these services during 2018 and 2017, respectively, and were recognized in other operating revenue. Amounts due from UCD, including CRC, were approximately \$324 and \$298 at June 30, 2018 and 2017, respectively, and are included in related-party receivables on the balance sheets. UCHA recorded amounts due to UCD of \$1,380 and \$1,118 at June 30, 2018 and 2017, respectively, for contract labor costs and School of Pharmacy support expenses.

Effective July 1, 2014, UCHealth entered into a five-year academic support agreement with the University of Colorado School of Medicine. The agreement provides that UCHealth make annual academic support donations to enhance the ability of the School of Medicine to fulfill its academic missions of educating students in health-related disciplines and professions and furthering basic and applied biomedical research. The academic support donation for the year ended June 30, 2018 is estimated at \$27,228. The amount paid for the academic support donation for the year ended June 30, 2017 was \$25,085.

#### (b) TriWest

TriWest was formed to deliver healthcare services to eligible beneficiaries of TriCare within certain specified geographic regions. On June 27, 1996, TriWest was awarded the TriCare contract by the Department of Defense for a five-year period of healthcare service delivery, which began in April 1997. UCHA entered into certain provider and network management agreements with TriWest in 1996. TriWest lost its contract with the Department of Defense when the contract was awarded to United Healthcare during the year ended June 30, 2012. The new contract awarded to United Healthcare involved a one-year transition period starting April 1, 2013. TriWest is reviewing its business plan regarding this event and is building its future strategy.

UCHA purchased a minority interest in TriWest for approximately \$3,300. In October 2007, UCHA sold 1,656.55 shares for approximately \$18,053 to TriWest. After the sale, CU Medicine had a 60% share of UCHA's minority interest in TriWest. In March 2014, TriWest restructured its ownership resulting in UCHA and CU Medicine selling their stock back to TriWest and receiving new stock valued at \$9,250.

UCHA's investment is accounted for under the cost method and is valued at approximately \$6,000 at June 30, 2018 and 2017.

## UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

### (16) Related Party Transactions (continued)

#### *(c) CU Medicine*

During the years ended June 30, 2018 and 2017, UCHealth recognized approximately \$138,637 and \$114,686, respectively, in contract expense to CU Medicine for contractual reimbursement of faculty administrative services and recruitment support, reimbursements for hospital programs for services provided by CU Medicine on behalf of UCHA (e.g., on-call services, joint networking, administrative and other miscellaneous programs), and reimbursements channeled through UCHA by external entities for services provided by CU Medicine on behalf of those external entities (e.g., Ryan White program).

UCHealth recorded net payables to CU Medicine of \$4,974 and \$4,381 at June 30, 2018 and 2017, respectively, for various contract labor and provider support expenses and TriWest pass-through balances.

UCHA participates in a joint operating agreement with CU Medicine to operate an imaging center located in Denver, Colorado. The imaging center provides 3T MRI imaging services to UCHA's patients and is operated on the terms set forth in the agreement. Capital contributions and division of revenue and expenses will be split between the two organizations as defined within the agreement.

#### *(d) The Children's Hospital*

In July 2010, UCHA began a joint maternal fetal program in conjunction with Children's Hospital Colorado ("CHCO") to establish a center for advanced maternal fetal medicine offering state-of-the-art care for high-risk pregnant women and their babies. The program is defined in an operating agreement that details the cost and revenue sharing between the two hospitals. UCHA has recorded a related-party payable to CHCO at June 30, 2018 and 2017, of \$18,518 and \$17,508, respectively.

Effective October 1, 2012, a sublease was executed with CHCO to operate the pediatric units located at Memorial Health System and was valued at 15% of the organization. CHCO paid the corresponding amount of the upfront payment and continues to pay its percentage of the ongoing lease payments to the City. On June 4, 2015, MHS became the licensed operator of the pediatric services and certain provisions of the sublease were temporarily suspended and replaced by a Management Services Agreement and Employee Lease between MHS and CHCO. It is anticipated that the original provisions of the lease will be reinstated in fiscal year 2019. Included in other receivables is \$370 and \$1,284 at June 30, 2018 and 2017, respectively, for the current portion of the sublease receivable from CHCO and related accrued interest. Included in other non-current assets is \$15,198 at June 30, 2018 and 2017, for the long-term portion of the sublease receivable from CHCO. Included in other current liabilities at June 30, 2018 and 2017 is \$1,315 and \$1,158, respectively, due to CHCO for contract labor costs for the work of CHCO employees in MHS units. MHS also provides services for CHCO patients, MHS employees periodically perform contract labor work on the pediatric units on behalf of CHCO, and MHS purchases certain supplies for the pediatric units on behalf of CHCO. MHS has a receivable from CHCO of \$5 and \$95 at June 30, 2018 and 2017, respectively.

## UNIVERSITY OF COLORADO HEALTH

Notes to Basic Financial Statements  
June 30, 2018 and 2017  
(\$s in thousands)

### **(16) Related Party Transactions (continued)**

#### ***(e) VEBA Trust***

On July 1, 2010, UCHA entered into an agreement with CU Medicine and the Regents to begin a self-insurance trust known as the Colorado Health and Welfare Trust (the "VEBA Trust") for the benefit of eligible employees of the University, CU Medicine, and UCHA and their eligible dependents, including employees of UCHA at MHS. The VEBA Trust is managed by a third-party administrator and provides healthcare coverage for eligible employees of the three organizations. The VEBA Trust also manages the healthcare flexible spending plans of the three organizations. The VEBA Trust functions as a retrospectively rated contract in which the initial premium is adjusted based on actual experience. For the years ended June 30, 2018 and 2017, UCHealth expensed initial premiums of approximately \$231,305 and \$189,508, respectively, to the VEBA Trust. At June 30, 2018 and 2017, UCHealth recorded liabilities of approximately \$14,331 and \$10,118, respectively, for its share of costs in excess of initial premiums expensed. The amount of costs in excess of initial premiums expensed is estimated by management based on an analysis of historical claims development combined with available information on current year experience. Actual results could differ from those estimates.

#### ***(f) UCHealth Partners, LLC***

At June 30, 2017, UCHealth owned a 50.1% interest in UCHealth Partners. UCHealth also provided certain shared services, management services, and leased employee arrangements to UCHealth Partners. UCHealth recognized \$1,965 for the year ended June 30, 2017 in revenues from providing these services to UCHealth Partners, and recognized \$11,026 for the year ending June 30, 2017 in salary cost recovery for the leased employee arrangements. Included in other receivables are \$7,592 as of June 30, 2017, for amounts owed to UCHealth under these arrangements. During the year ended June 30, 2018, UCHealth acquired the remaining 49.9% ownership interest in UCHealth Partners as discussed in Note 18.

#### ***(g) Other Related Parties***

UCHA and two other entities participate as members in Colorado Access, a Colorado not-for-profit corporation that owns and operates a statewide health maintenance organization that serves Medicaid patients. There are no earnings distribution agreements between Colorado Access and UCHA. Requests for financial information for Colorado Access should be addressed to Colorado Access, President and CEO, 11100 East Bethany Drive, Aurora, Colorado 80014.

In August 2001, UCHA entered into an agreement to loan Colorado Access \$625. The principal and interest were due on or before August 24, 2004. The interest rate is equal to the Federal Reserve Bank of New York's prime rate on August 24 of each year that the principal amount is outstanding. The principal and accrued interest amounts are included in related-party receivables on the balance sheets. Colorado Access is unable to specify a timeline for repayment of this loan as a result of current negotiations with the Colorado Division of Insurance regarding steps to be taken to achieve required levels of risk-based capital. The outstanding loan balance has been transferred to UCHealth.

## UNIVERSITY OF COLORADO HEALTH

### Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

#### (17) Commitments and Contingencies

A substantial portion of the Health System's revenue is received under contractual arrangements with Medicare, Medicaid, and the military and other governmental programs. Payments from these payors are based on a combination of prospectively determined rates and retrospectively settled cost reimbursement. Final settlement of the amounts due to the Health System or payable to the payors is subject to the laws and regulations governing these programs and post-payment audits that may result in further adjustments by the payors. Additionally, these payments are subject to other routine post-payment reviews, audits, and investigations that may result in refunds, repayments, or other financial settlements. Specific accruals related to such contractual arrangements are included in the basic financial statements.

UCHealth has entered into contracts for significant new construction and expansion projects it is currently undertaking. At June 30, 2018, UCHealth has committed contract expenditures for these significant projects of \$316,303.

At June 30, 2018, UCHealth has outstanding letters of credit totaling \$8,023.

#### (18) Mergers and Acquisitions

Effective September 1, 2017, an Integration and Affiliation Agreement with YVMC was executed with the purpose of having YVMC join UCHealth as part of the joint operating agreement. Terms of the agreement included a \$50,000 strategic capital commitment, routine capital funding of \$35,000 over a 10-year period, and a contribution of up to \$20,000 into the YVMC Foundation. The following were the amounts recognized as of the effective date:

|                                                 |                   |
|-------------------------------------------------|-------------------|
| Assets                                          |                   |
| Current assets                                  | \$ 21,616         |
| Capital assets, net of accumulated depreciation | 64,402            |
| Other assets                                    | <u>33,039</u>     |
| Total assets                                    | <u>\$ 119,057</u> |
| Liabilities                                     |                   |
| Current liabilities                             | \$ 14,024         |
| Total liabilities                               | <u>14,024</u>     |
| Net position                                    | <u>105,033</u>    |
| Total liabilities and net position              | <u>\$ 119,057</u> |

## UNIVERSITY OF COLORADO HEALTH

### Notes to Basic Financial Statements June 30, 2018 and 2017 (\$s in thousands)

#### **(18) Mergers and Acquisitions (continued)**

Effective December 1, 2017, UCHealth purchased the remaining 49.9% of UCHealth Partners from Adeptus Health Colorado Holdings LLC (“Adeptus”). The consideration paid for the acquisition included \$16,133 in forgiveness of receivables from UCHealth Partners and Adeptus, as well as contingent consideration of 49.9% of future collections of accounts receivable for services provided prior to December 1, 2017, 2.5% of future emergent and urgent services net patient revenue over two years, and 5% of future emergent and urgent services net patient revenue over the next 16 years. UCHealth has estimated the contingent consideration to be \$45,978 based on the current financial performance of those locations, adjusted for growth in revenues in future years. The net position acquired was \$35,171, and the reduction in net position that resulted from the transaction, including the consideration paid, was \$96,867.

Effective April 1, 2018, UCHealth purchased certain assets of Pikes Peak Regional Hospital from Brim Healthcare of Colorado, LLC for cash consideration of \$32,150. The net position acquired as of the date of acquisition was \$0.

#### **(19) Subsequent Events**

The Health System has evaluated subsequent events through the auditors' report date and has identified the following material subsequent events that required recognition or additional disclosure in these financial statements.

In July 2018, UCHA issued Series 2018A Revenue Bonds (“Series 2018A”) in the amount of \$45,915 to fully refund PVHS Series 2005A bonds. Series 2018A were issued as variable-rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connection with weekly remarketing dates to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity.

In July 2018, UCHA issued Series 2018B Revenue Bonds (“Series 2018B”) and Series 2018C Revenue Bonds (“Series 2018C”) in the amount of \$76,170 and \$75,265 respectively to fully refund PVHS Series 2005B and Series 2005C bonds. Series 2018B and 2018C are variable rate bonds and will bear interest as determined by the Remarketing Agent each week and principal is paid according to a mandatory sinking fund redemption schedule. The hospital has a Standby Bond Purchase Agreement with TD Bank to provide liquidity support for Series 2018B and 2018C. The Standby Bond Purchase Agreement expires on July 26, 2023 unless extended by the bank.

Effective July 1, 2018, the Basic Pension Plan was amended to allow employees who leave with less than ten years of service to elect a lump sum distribution upon termination, to allow employees with over ten years of service to elect a partial lump sum to the extent that their balance is above an \$18 per year annuity, to allow terminated participants to elect these options as well based on the same criteria for active participants, and to allow the purchase by the Basic Plan of annuities for retirees periodically when rates are favorable.

In July 2018, the PVHS amended and restated Master Trust Indenture was terminated.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# UNIVERSITY OF COLORADO HEALTH

June 30, 2018 and 2017  
(\$s in thousands)

## Schedule of Changes in Net Pension Liability and Related Ratios

|                                                                        | 2018              | 2017              | 2016              | 2015              | 2014              | 2013              |
|------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total pension liability                                                |                   |                   |                   |                   |                   |                   |
| Service cost                                                           | \$ 84,811         | \$ 63,156         | \$ 57,110         | \$ 49,411         | \$ 50,305         | \$ 38,706         |
| Interest                                                               | 56,967            | 50,527            | 44,575            | 37,092            | 29,718            | 25,456            |
| Plan changes                                                           | -                 | -                 | -                 | 10,490            | -                 | -                 |
| Difference in expected and actual experience                           | 7,291             | 2,020             | 4,388             | 15,584            | -                 | (9,722)           |
| Changes in assumptions                                                 | (8,788)           | -                 | (6,213)           | 37,858            | -                 | 20,164            |
| Benefits payments                                                      | (20,914)          | (19,464)          | (14,047)          | (12,188)          | (9,821)           | (8,363)           |
| Other                                                                  | -                 | -                 | 714               | (713)             | -                 | -                 |
| Net change in total pension liability                                  | 119,367           | 96,239            | 86,527            | 137,534           | 70,202            | 66,241            |
| Total pension liability - beginning                                    | 825,769           | 729,530           | 643,003           | 505,469           | 435,267           | 369,026           |
| Total pension liability - ending (a)                                   | <u>\$ 945,136</u> | <u>\$ 825,769</u> | <u>\$ 729,530</u> | <u>\$ 643,003</u> | <u>\$ 505,469</u> | <u>\$ 435,267</u> |
| Plan fiduciary net position                                            |                   |                   |                   |                   |                   |                   |
| Contributions - employer                                               | \$ 79,213         | \$ 74,356         | \$ 68,000         | \$ 66,184         | \$ 56,311         | \$ 45,310         |
| Net investment income (loss)                                           | 56,395            | 78,610            | (476)             | 12,212            | 56,354            | 31,947            |
| Benefits payments                                                      | (20,914)          | (19,464)          | (14,047)          | (12,188)          | (9,821)           | (8,363)           |
| Administrative expense                                                 | (2,251)           | (1,746)           | (1,464)           | (1,453)           | (794)             | (543)             |
| Net change in plan fiduciary net position                              | 112,443           | 131,756           | 52,013            | 64,755            | 102,050           | 68,351            |
| Plan fiduciary net position - beginning                                | 710,102           | 578,346           | 526,333           | 461,578           | 359,528           | 291,177           |
| Plan fiduciary net position - ending (b)                               | <u>\$ 822,545</u> | <u>\$ 710,102</u> | <u>\$ 578,346</u> | <u>\$ 526,333</u> | <u>\$ 461,578</u> | <u>\$ 359,528</u> |
| UC Health's net pension liability - ending (a) - (b)                   | <u>\$ 122,591</u> | <u>\$ 115,667</u> | <u>\$ 151,184</u> | <u>\$ 116,670</u> | <u>\$ 43,891</u>  | <u>\$ 75,739</u>  |
| Plan fiduciary net position as a percentage of total pension liability | 87.0%             | 86.0%             | 79.3%             | 81.9%             | 91.3%             | 82.6%             |
| Covered employee payroll                                               | \$ 1,193,744      | \$ 1,059,420      | \$ 940,375        | \$ 862,612        | \$ 807,135        | \$ 584,097        |
| Net pension liability as a percentage of covered payroll               | 10.3%             | 10.9%             | 16.1%             | 13.5%             | 5.4%              | 13.0%             |

### Note to Schedule:

*Changes of assumptions* – Based on the results of an experience study, retirement and termination rates, salary increase rates, and the assumption regarding election of form of payment upon retirement were updated in 2013. These changes increased the present value of projected benefits by \$20,164.

The assumed rates of mortality were updated in 2015 based on adopting the RP-2014 mortality tables. This change decreased the present value of projected benefits by \$6,213 in 2016. This change increased the present value of projected benefits by \$37,858 and increased the actuarially determined contribution by \$8,306 in 2016.

The assumed rates of mortality were further updated in 2017 by incorporating with RP-2014 mortality table, the MP-2017 mortality improvement scale. This change decreased the present value of projected benefits by \$8,788 in 2018.

# UNIVERSITY OF COLORADO HEALTH

June 30, 2018 and 2017  
(\$s in thousands)

## Schedule of Contributions (Last 10 Fiscal Years)

|      | Actuarially<br>Determined<br>Contribution | Actual<br>Contributions | Contribution<br>Deficiency<br>(Excess) | Covered-<br>Employee Payroll | Contributions as a<br>Percentage of<br>Covered-<br>Employee<br>Payroll |
|------|-------------------------------------------|-------------------------|----------------------------------------|------------------------------|------------------------------------------------------------------------|
| 2018 | \$ 79,213                                 | \$ 79,213               | \$ -                                   | \$ 1,193,744                 | 6.64%                                                                  |
| 2017 | \$ 74,356                                 | \$ 74,356               | \$ -                                   | \$ 1,059,420                 | 7.02%                                                                  |
| 2016 | \$ 67,969                                 | \$ 68,000               | \$ (31)                                | \$ 940,375                   | 7.23%                                                                  |
| 2015 | \$ 66,184                                 | \$ 66,184               | \$ -                                   | \$ 862,612                   | 7.67%                                                                  |
| 2014 | \$ 56,311                                 | \$ 56,311               | \$ -                                   | \$ 807,135                   | 6.98%                                                                  |
| 2013 | \$ 45,310                                 | \$ 45,310               | \$ -                                   | \$ 584,097                   | 7.76%                                                                  |
| 2012 | \$ 26,398                                 | \$ 26,398               | \$ -                                   | \$ 256,158                   | 10.31%                                                                 |
| 2011 | \$ 20,101                                 | \$ 20,101               | \$ -                                   | \$ 236,621                   | 8.50%                                                                  |
| 2010 | \$ 19,182                                 | \$ 19,182               | \$ -                                   | \$ 219,877                   | 8.72%                                                                  |
| 2009 | \$ 16,265                                 | \$ 23,600               | \$ (7,335)                             | \$ 196,729                   | 12.00%                                                                 |

### Notes to Schedule

Valuation Date                      Actuarially determined contribution rates are calculated as of July 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method              Entry Age Normal, Level Percent of Pay

Amortization method              Straight Line

Asset valuation method              Fair Value

Investment rate of return              7.0%, includes inflation at 2.5%

Projected salary increases              3.6% to 6.5%

Cost of living adjustments              2.5%

Mortality                              In the 2017 actuarial valuation, mortality rates were based on the RP-2014 mortality table adjusted for the MP-2017 mortality improvement scale. In the 2016 and 2015 actuarial valuation, mortality rates were based on the RP-2014 mortality table. In prior years, those assumptions were based on the RP-2000 mortality table.

**UNIVERSITY OF COLORADO HEALTH**

June 30, 2018 and 2017  
(\$s in thousands)

**Schedule of Pension Plan Investment Returns**

| <u>Year Ending June 30,</u> | <u>Annual Money-Weighted Rate of Return,<br/>Net of Investment Expense</u> |
|-----------------------------|----------------------------------------------------------------------------|
| 2018                        | 7.80%                                                                      |
| 2017                        | 13.10%                                                                     |
| 2016                        | -0.90%                                                                     |
| 2015                        | 2.40%                                                                      |
| 2014                        | 15.00%                                                                     |
| 2013                        | 10.60%                                                                     |
| 2012                        | -0.60%                                                                     |
| 2011                        | 21.90%                                                                     |
| 2010                        | 12.20%                                                                     |
| 2009                        | -15.90%                                                                    |

## **SUPPLEMENTARY INFORMATION**

UNIVERSITY OF COLORADO HEALTH

Combining Balance Sheet

June 30, 2018

(In thousands)

|                                                                           | University of<br>Colorado Hospital<br>Authority | Poudre Valley<br>Health System<br>Obligated Group | Memorial<br>Health<br>System | Other<br>Obligated<br>Group | Obligated<br>Group<br>Eliminations | Obligated<br>Group<br>Consolidated | UCHealth<br>Plan<br>Administrators | Other      | Other<br>Eliminations | University of<br>Colorado Health<br>Consolidated |
|---------------------------------------------------------------------------|-------------------------------------------------|---------------------------------------------------|------------------------------|-----------------------------|------------------------------------|------------------------------------|------------------------------------|------------|-----------------------|--------------------------------------------------|
| <b>Assets</b>                                                             |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Current assets:                                                           |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Cash and cash equivalents                                                 | \$ 171,478                                      | \$ 124,735                                        | \$ 9,106                     | \$ 3,383                    | \$ -                               | \$ 308,702                         | \$ 1,628                           | \$ 20,023  | \$ -                  | \$ 330,353                                       |
| Patient accounts receivable, net of allowances for uncollectible accounts | 237,614                                         | 132,209                                           | 103,390                      | 30,301                      | -                                  | 503,514                            | -                                  | 18,645     | -                     | 522,159                                          |
| Other receivables                                                         | 15,051                                          | 3,844                                             | 3,048                        | 13,535                      | -                                  | 35,478                             | 156                                | 288        | -                     | 35,922                                           |
| Receivables from affiliates                                               | 324,908                                         | 209,382                                           | 14,579                       | -                           | (518,916)                          | 29,953                             | -                                  | -          | (29,953)              | -                                                |
| Inventories                                                               | 40,570                                          | 20,533                                            | 16,636                       | 7,575                       | -                                  | 85,314                             | -                                  | 2,912      | -                     | 88,226                                           |
| Prepaid expenses                                                          | 24,196                                          | 12,184                                            | 9,660                        | 20,973                      | -                                  | 67,013                             | 52                                 | 570        | -                     | 67,635                                           |
| Investments designated for liquidity support                              | 102,315                                         | -                                                 | -                            | -                           | -                                  | 102,315                            | -                                  | -          | -                     | 102,315                                          |
| Total current assets                                                      | 916,132                                         | 502,887                                           | 156,419                      | 75,767                      | (518,916)                          | 1,132,289                          | 1,836                              | 42,438     | (29,953)              | 1,146,610                                        |
| Non-current assets:                                                       |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Restricted investments, bonds                                             | 766                                             | 22,729                                            | -                            | -                           | -                                  | 23,495                             | -                                  | -          | -                     | 23,495                                           |
| Restricted investments, other                                             | 4                                               | 195                                               | 8                            | 636                         | -                                  | 843                                | -                                  | -          | -                     | 843                                              |
| Restricted investments and pledges, donors                                | 3,969                                           | -                                                 | -                            | 15                          | -                                  | 3,984                              | -                                  | 47,696     | (7,527)               | 44,153                                           |
| Capital assets, net of accumulated depreciation                           | 845,466                                         | 427,208                                           | 395,256                      | 703,976                     | -                                  | 2,371,906                          | 110                                | 48,348     | 15                    | 2,420,379                                        |
| Long-term investments                                                     | 1,898,053                                       | 1,457,137                                         | 94,981                       | 27,873                      | -                                  | 3,478,044                          | -                                  | 9,643      | -                     | 3,487,687                                        |
| Long-term receivables from affiliates                                     | 763,840                                         | -                                                 | -                            | -                           | (763,840)                          | -                                  | -                                  | -          | -                     | -                                                |
| Other investments                                                         | 7,283                                           | 46,942                                            | 2,139                        | 31,796                      | (1,519)                            | 86,641                             | -                                  | 8,624      | (40,014)              | 55,251                                           |
| Long-term prepaid expenses                                                | -                                               | 8,428                                             | -                            | -                           | -                                  | 8,428                              | -                                  | -          | -                     | 8,428                                            |
| Other assets                                                              | 1,778                                           | 4,153                                             | 16,566                       | 1,201                       | -                                  | 23,698                             | -                                  | 269        | -                     | 23,967                                           |
| Total non-current assets                                                  | 3,521,159                                       | 1,966,792                                         | 508,950                      | 765,497                     | (765,359)                          | 5,997,039                          | 110                                | 114,580    | (47,526)              | 6,064,203                                        |
| Total assets                                                              | 4,437,291                                       | 2,469,679                                         | 665,369                      | 841,264                     | (1,284,275)                        | 7,129,328                          | 1,946                              | 157,018    | (77,479)              | 7,210,813                                        |
| <b>Deferred Outflows of Resources</b>                                     |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Deferred amortization on refundings                                       | 5,822                                           | 155                                               | -                            | -                           | -                                  | 5,977                              | -                                  | -          | -                     | 5,977                                            |
| Deferred amortization of pension                                          | 14,182                                          | 10,829                                            | 8,466                        | 5,006                       | -                                  | 38,483                             | -                                  | 18         | -                     | 38,501                                           |
| Deferred amortization on acquisitions                                     | -                                               | -                                                 | 5,442                        | 5,917                       | -                                  | 11,359                             | -                                  | 11,916     | -                     | 23,275                                           |
| Total deferred outflows of resources                                      | 20,004                                          | 10,984                                            | 13,908                       | 10,923                      | -                                  | 55,819                             | -                                  | 11,934     | -                     | 67,753                                           |
| Total assets and deferred outflows of resources                           | \$ 4,457,295                                    | \$ 2,480,663                                      | \$ 679,277                   | \$ 852,187                  | \$ (1,284,275)                     | \$ 7,185,147                       | \$ 1,946                           | \$ 168,952 | \$ (77,479)           | \$ 7,278,566                                     |
| <b>Liabilities and Net Position</b>                                       |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Current liabilities:                                                      |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Current portion of long-term debt                                         | \$ 24,045                                       | \$ 3,198                                          | \$ 2,709                     | \$ 206                      | \$ -                               | \$ 30,158                          | \$ -                               | \$ 14      | \$ -                  | \$ 30,172                                        |
| Accounts payable and accrued expenses                                     | 138,044                                         | 107,143                                           | 66,986                       | 102,102                     | -                                  | 414,275                            | 161                                | 10,558     | -                     | 424,994                                          |
| Accounts payable - construction                                           | 1,921                                           | 4,019                                             | 17,959                       | 54,434                      | -                                  | 78,333                             | -                                  | -          | -                     | 78,333                                           |
| Accrued compensated absences                                              | 26,520                                          | 22,186                                            | 15,282                       | 17,738                      | -                                  | 81,726                             | 130                                | 1,223      | -                     | 83,079                                           |
| Payables to affiliates                                                    | -                                               | 7,027                                             | 4,226                        | 515,991                     | (518,916)                          | 8,328                              | 1,267                              | 28,676     | (38,271)              | -                                                |
| Accrued interest payable                                                  | 6,679                                           | 3,763                                             | -                            | 22                          | -                                  | 10,464                             | -                                  | -          | -                     | 10,464                                           |
| Fair value of derivative intruments                                       | 2,635                                           | -                                                 | -                            | -                           | -                                  | 2,635                              | -                                  | -          | -                     | 2,635                                            |
| Estimated third-party settlements, net                                    | 109,836                                         | 43,857                                            | 52,836                       | 1,644                       | -                                  | 208,173                            | -                                  | 3,776      | -                     | 211,949                                          |
| Long-term debt subject to short-term remarketing                          | 102,315                                         | -                                                 | -                            | -                           | -                                  | 102,315                            | -                                  | -          | -                     | 102,315                                          |
| Total current liabilities                                                 | 411,995                                         | 191,193                                           | 159,998                      | 692,137                     | (518,916)                          | 936,407                            | 1,558                              | 44,247     | (38,271)              | 943,941                                          |
| Long-term liabilities:                                                    |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Long-term debt, less current portion                                      | 1,353,018                                       | 230,255                                           | 93,227                       | 3,456                       | -                                  | 1,679,956                          | -                                  | 30         | -                     | 1,679,986                                        |
| Long-term payables to affiliates                                          | -                                               | 189,013                                           | 327,077                      | 247,750                     | (763,840)                          | -                                  | -                                  | -          | -                     | -                                                |
| Fair value of derivative instruments, less current portion                | 17,197                                          | -                                                 | -                            | (2,690)                     | -                                  | 14,507                             | -                                  | -          | -                     | 14,507                                           |
| Net pension liability                                                     | 92,471                                          | 14,612                                            | 8,352                        | 7,139                       | -                                  | 122,574                            | -                                  | 17         | -                     | 122,591                                          |
| Other long-term liabilities                                               | 2,565                                           | 3,775                                             | 2,542                        | 40,491                      | -                                  | 49,373                             | 21                                 | 227        | -                     | 49,621                                           |
| Total liabilities                                                         | 1,877,246                                       | 628,848                                           | 591,196                      | 988,283                     | (1,282,756)                        | 2,802,817                          | 1,579                              | 44,521     | (38,271)              | 2,810,646                                        |
| <b>Deferred Inflows of Resources</b>                                      |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Deferred amortization of pension                                          | 5,792                                           | 1,903                                             | 4,058                        | 1,596                       | -                                  | 13,349                             | -                                  | 11         | -                     | 13,360                                           |
| Total deferred inflows of resources                                       | 5,792                                           | 1,903                                             | 4,058                        | 1,596                       | -                                  | 13,349                             | -                                  | 11         | -                     | 13,360                                           |
| Total liabilities and deferred inflows of resources                       | 1,883,038                                       | 630,751                                           | 595,254                      | 989,879                     | (1,282,756)                        | 2,816,166                          | 1,579                              | 44,532     | (38,271)              | 2,824,006                                        |
| Net position:                                                             |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Invested in capital assets, net of related debt                           | 136,646                                         | 2,950                                             | (47,948)                     | 398,765                     | -                                  | 490,413                            | 111                                | 48,304     | 15                    | 538,843                                          |
| Restricted                                                                |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Expendable                                                                |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Held by trustee for debt service                                          | 766                                             | 22,729                                            | -                            | -                           | -                                  | 23,495                             | -                                  | -          | -                     | 23,495                                           |
| Restricted by donors                                                      | -                                               | -                                                 | -                            | -                           | -                                  | -                                  | -                                  | 38,012     | -                     | 38,012                                           |
| Non-expendable                                                            |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Permanent endowments                                                      | -                                               | -                                                 | -                            | -                           | -                                  | -                                  | -                                  | 27,960     | -                     | 27,960                                           |
| Minority interest in component unit                                       | -                                               | 28,352                                            | -                            | -                           | -                                  | 28,352                             | -                                  | -          | -                     | 28,352                                           |
| Unrestricted                                                              | 2,436,845                                       | 1,795,881                                         | 131,971                      | (536,457)                   | (1,519)                            | 3,826,721                          | 256                                | 10,144     | (39,223)              | 3,797,898                                        |
| Net position                                                              | 2,574,257                                       | 1,849,912                                         | 84,023                       | (137,692)                   | (1,519)                            | 4,368,981                          | 367                                | 124,420    | (39,208)              | 4,454,560                                        |
| Total liabilities and net position                                        | \$ 4,457,295                                    | \$ 2,480,663                                      | \$ 679,277                   | \$ 852,187                  | \$ (1,284,275)                     | \$ 7,185,147                       | \$ 1,946                           | \$ 168,952 | \$ (77,479)           | \$ 7,278,566                                     |

# UNIVERSITY OF COLORADO HEALTH

## Combining Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2018 (\$s in thousands)

|                                                                        | University of<br>Colorado Hospital<br>Authority | Poudre Valley<br>Health System<br>Obligated Group | Memorial<br>Health<br>System | Other<br>Obligated<br>Group | Obligated<br>Group<br>Eliminations | Obligated<br>Group<br>Consolidated | UCHealth<br>Plan<br>Administrators | Other      | Other<br>Eliminations | University of<br>Colorado Health<br>Consolidated |
|------------------------------------------------------------------------|-------------------------------------------------|---------------------------------------------------|------------------------------|-----------------------------|------------------------------------|------------------------------------|------------------------------------|------------|-----------------------|--------------------------------------------------|
| Operating revenue:                                                     |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Net patient service revenue, net of provision for bad debts            | \$ 1,873,879                                    | \$ 1,273,178                                      | \$ 893,218                   | \$ 172,765                  | \$ -                               | \$ 4,213,040                       | \$ -                               | \$ 56,101  | \$ -                  | \$ 4,269,141                                     |
| Other operating revenue                                                | 12,905                                          | 24,182                                            | 23,170                       | 3,861                       | (831)                              | 63,287                             | 166                                | 14,938     | (6,046)               | 72,345                                           |
| Total operating revenue                                                | 1,886,784                                       | 1,297,360                                         | 916,388                      | 176,626                     | (831)                              | 4,276,327                          | 166                                | 71,039     | (6,046)               | 4,341,486                                        |
| Operating expenses:                                                    |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Wages, contract labor, and benefits                                    | 605,850                                         | 569,681                                           | 462,130                      | 133,845                     | (68)                               | 1,771,438                          | -                                  | 35,085     | (117)                 | 1,806,406                                        |
| Supplies                                                               | 464,795                                         | 238,437                                           | 165,214                      | 30,649                      | -                                  | 899,095                            | -                                  | 7,905      | -                     | 907,000                                          |
| Purchased services and other expenses                                  | 428,977                                         | 182,311                                           | 183,832                      | 52,172                      | (763)                              | 846,529                            | -                                  | 67,164     | (11,020)              | 902,673                                          |
| Depreciation and amortization                                          | 78,028                                          | 55,583                                            | 37,211                       | 23,901                      | -                                  | 194,723                            | -                                  | 4,408      | -                     | 199,131                                          |
| Total operating expenses                                               | 1,577,650                                       | 1,046,012                                         | 848,387                      | 240,567                     | (831)                              | 3,711,785                          | -                                  | 114,562    | (11,137)              | 3,815,210                                        |
| Operating income                                                       | 309,134                                         | 251,348                                           | 68,001                       | (63,941)                    | -                                  | 564,542                            | 166                                | (43,523)   | 5,091                 | 526,276                                          |
| Non-operating revenue and expenses:                                    |                                                 |                                                   |                              |                             |                                    |                                    |                                    |            |                       |                                                  |
| Interest expense                                                       | (42,709)                                        | (16,716)                                          | (14,665)                     | (7,479)                     | 28,336                             | (53,233)                           | -                                  | (128)      | 119                   | (53,242)                                         |
| Investment income                                                      | 172,166                                         | 104,837                                           | 7,601                        | 4,475                       | (28,336)                           | 260,743                            | -                                  | 2,629      | (119)                 | 263,253                                          |
| Unrealized gain on derivative investments                              | 7,663                                           | 6,335                                             | (399)                        | -                           | -                                  | 13,599                             | -                                  | -          | -                     | 13,599                                           |
| Gain (loss) on disposal of capital assets                              | 41                                              | 37                                                | (119)                        | (395)                       | -                                  | (436)                              | -                                  | 4          | -                     | (432)                                            |
| Other, net                                                             | (15,319)                                        | (13,408)                                          | (11,051)                     | (20,823)                    | -                                  | (60,601)                           | -                                  | 1,919      | 17,900                | (40,782)                                         |
| Total non-operating revenue and expenses                               | 121,842                                         | 81,085                                            | (18,633)                     | (24,222)                    | -                                  | 160,072                            | -                                  | 4,424      | 17,900                | 182,396                                          |
| Excess of revenue over expenses before distributions and contributions | 430,976                                         | 332,433                                           | 49,368                       | (88,163)                    | -                                  | 724,614                            | 166                                | (39,099)   | 22,991                | 708,672                                          |
| Distributions to minority interest in component unit                   | -                                               | (8,759)                                           | -                            | -                           | -                                  | (8,759)                            | -                                  | (1,737)    | -                     | (10,496)                                         |
| Contributions (to) from affiliates                                     | (890)                                           | (890)                                             | -                            | (132)                       | -                                  | (1,912)                            | -                                  | 4,481      | (2,569)               | -                                                |
| Contributions restricted for capital assets                            | -                                               | 1,473                                             | -                            | 245                         | -                                  | 1,718                              | -                                  | -          | (1,706)               | 12                                               |
| Contributions restricted, other                                        | (44)                                            | -                                                 | 327                          | -                           | -                                  | 283                                | -                                  | 24,782     | (19,580)              | 5,485                                            |
| Acquisition of interests in component units                            | -                                               | -                                                 | -                            | 5,740                       | -                                  | 5,740                              | -                                  | 37,597     | -                     | 43,337                                           |
| Change in net position                                                 | 430,042                                         | 324,257                                           | 49,695                       | (82,310)                    | -                                  | 721,684                            | 166                                | 26,024     | (864)                 | 747,010                                          |
| Net position, beginning of year                                        | 2,144,215                                       | 1,525,655                                         | 34,328                       | (55,382)                    | (1,519)                            | 3,647,297                          | 201                                | 98,396     | (38,344)              | 3,707,550                                        |
| Net position, end of year                                              | \$ 2,574,257                                    | \$ 1,849,912                                      | \$ 84,023                    | \$ (137,692)                | \$ (1,519)                         | \$ 4,368,981                       | \$ 367                             | \$ 124,420 | \$ (39,208)           | \$ 4,454,560                                     |